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IN THE

Supreme Court of the United States

TIFFANY (NJ) INC. AND
TIFFANY AND COMPANY,

Petitioners,

v.

EBAY INC.,

Respondent.

On Petition For A Writ Of Certiorari To The United States Court Of Appeals For The Second Circuit

PETITION FOR A WRIT OF CERTIORARI

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QUESTION PRESENTED

This Court held in *Inwood Laboratories, Inc.* v. *Ives Laboratories, Inc.* that a defendant is liable for contributory trademark infringement if "it continues to supply its product to one whom it knows or has reason to know is engaging in trademark infringement." 456 U.S. 844, 854 (1982). The defendant in this case operates an online marketplace, which it knows is used to sell substantial quantities of goods that infringe the plaintiffs' trademarks. The Second Circuit held, in direct conflict with the Ninth Circuit, that the defendant cannot be held liable for contributory trademark infringement unless the trademark holders can prove that the defendant knows which particular items are infringing.

The question presented is whether, under the doctrine of contributory trademark infringement, a defendant can be held liable for operating a marketplace that it knows is used to sell substantial quantities of goods that infringe a plaintiff's trademark, even if it does not know which particular goods are infringing.

RULE 29.6 STATEMENT

Pursuant to this Court's Rule 29.6, undersigned counsel state that Petitioner Tiffany (NJ) Inc. was, on February 1, 2008, merged with and into Tiffany (NJ) LLC, which is a wholly owned subsidiary of Petitioner Tiffany and Company, which in turn is a wholly owned subsidiary of Tiffany & Co. Tiffany & Co. has no parent company, and no publicly held company owns 10% or more of its stock.

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PETITION FOR A WRIT OF CERTIORARI

Petitioners Tiffany (NJ) Inc. and Tiffany and Company (collectively "Tiffany") respectfully petition for a writ of certiorari to review the judgment of the United States Court of Appeals for the Second Circuit.

OPINIONS BELOW

The opinion of the court of appeals (App., *infra*, 1a–42a) is reported at 600 F.3d 93. The opinion of the district court (App., *infra*, 43a–172a) is reported at 576 F. Supp. 2d 463.

JURISDICTION

The judgment of the court of appeals was entered on April 1, 2010. Justice Ginsburg extended the time in which to file a petition for a writ of certiorari to and including August 30, 2010. *See* No. 09A1205. The jurisdiction of this Court is invoked under 28 U.S.C. § 1254(1).

STATEMENT

Tiffany designs branded jewelry that it manufactures in the United States for sale under its world-famous trademarks; respondent eBay Inc. operates an Internet-based marketplace in which users can purchase goods from other users. After a bench trial, the district court found that a "significant portion of the 'Tiffany' sterling silver jewelry listed on the eBay website . . . was counterfeit." App., *infra*, 83a. The Second Circuit did not question this finding but nonetheless held that, "[f]or contributory trademark infringement liability to lie, a service provider must have more than a general knowledge or reason to know that its service is being used to sell counterfeit goods." *Id.* at 27a. Instead, the court of appeals con-

cluded, "[s]ome contemporary knowledge of *which particular listings* are infringing or will infringe in the future is necessary." *Id.* at 27a–28a (emphasis added).

The opinion below cannot be reconciled with the Ninth Circuit's decision in *Fonovisa, Inc.* v. *Cherry Auction, Inc.*, 76 F.3d 259 (9th Cir. 1996). In *Fonovisa*, the Ninth Circuit concluded that the plaintiff had "stated a claim for contributory trademark infringement" based on allegations that the operator of a flea market was "aware that vendors . . . were selling counterfeit recordings in violation of [the plaintiff]'s trademarks." *Id.* at 261, 265. In stark contrast to the Second Circuit's approach, the Ninth Circuit did not require any allegation that the defendant knew *which particular recordings* were counterfeit.

The correct resolution of this disagreement is unquestionably important: The selection of appropriate standards for contributory liability in the context of Internet commerce is an issue that has received worldwide attention and indeed divided the courts in other countries. As the Second Circuit acknowledged, "[a] Belgian court declined to hold eBay liable for counterfeit cosmetic products sold through its website," while "French courts . . . have concluded that eBay violated applicable trademark laws." App., *infra*, 22a n.8; *see also* Valerie Walsh Johnson & Laura P. Merritt, Tiffany *v.* eBay: *A Case of Genuine Disparity in International Court Rulings on Counterfeit Products*, Landslide, Nov./Dec. 2008, at 22, 23. Given the undoubted importance of this issue, particularly in light of the global reach of online marketplaces such as eBay and the critical role played by trademarks in supporting consumer confidence in online commerce, the proper scope of federal

trademark law is an issue that warrants this Court's review.

1. For more than 170 years, Tiffany has "achieved great renown as a purveyor of high-quality and luxury goods" under the TIFFANY, TIFFANY & CO., T & CO., and other trademarks. App., *infra*, 49a. These trademarks are "indisputably famous" and are a "valuable asset owned by Tiffany." *Id.* at 50a. Since 2000, all new Tiffany merchandise sold in the United States has been available exclusively through Tiffany's retail stores, catalogs, webpage, and Business Sales division; Tiffany does not use liquidators, sell overstock merchandise, or hold "sales." *Id.* at 52a.

eBay operates an online marketplace at www.ebay.com, which "connect[s] buyers and sellers and . . . enable[s] transactions, which are carried out directly between eBay members." App., *infra*, 56a–57a. eBay generates revenue through various fees charged to its sellers. When a listing is created, eBay collects an "insertion fee" ranging from $0.20 to $4.80. *Id.* at 57a. If the item is sold, eBay collects a "final value fee" ranging from 5.25% to 10% of the sale price. *Ibid.* eBay earns additional revenue if the payment is processed through PayPal, an eBay subsidiary, which charges between 1.9% and 2.9% of the transaction amount, plus $0.30. *Id.* at 58a. Between April 2000 and June 2004, eBay earned $4.1 million in revenue from sales of purported Tiffany jewelry. *Id.* at 70a.

eBay repeatedly attempted to "boost" sales on its webpage by encouraging sellers to offer Tiffany merchandise. App., *infra*, 67a; *see also id.* at 68a (noting that eBay took "activ[e]" steps to "grow the sales of Tiffany items on its website"). In 2004, a newsletter

to jewelry sellers advised them to "us[e] recommended keywords to boost sales" and identified "Tiffany & Co." as a recommended keyword because it had "been used often" in recent eBay searches. *Id.* at 67a. Again in September 2006, eBay told sellers that the terms "Tiffany" and "Tiffany & Co." were top search terms. *Id.* at 68a. These were not isolated incidents; to the contrary, eBay regularly reported demand for Tiffany items through its "Hot Categories Report," which identified keywords for which there was significant demand. *Ibid.*; *see also ibid.* (discussing eBay's "Holiday Hot List," which included Tiffany merchandise on a "detailed list of products predicted to be in high demand and short supply this holiday season").

eBay rewarded the efforts of sellers who followed its advice by encouraging buyers to purchase Tiffany merchandise through eBay. App., *infra*, 68a. Before 2003, eBay "actively advertised the availability of Tiffany merchandise on its website" and "purchased sponsored link advertisements on Yahoo! and Google advertising the availability of Tiffany items on eBay." *Id.* at 69a. In response to a letter from Tiffany, eBay claimed to have stopped purchasing those links. *Ibid.* In fact, it simply enlisted the services of a third party, Commission Junction, to operate an "affiliate program" in which "sellers who registered as 'affiliates' contracted with Commission Junction and then bought sponsored links on Google." *Ibid.* The affiliates could then be reimbursed "depending on how much business they drove to the eBay website." *Ibid.* eBay did not ask Commission Junction to prohibit affiliates from using Tiffany as a keyword to trigger sponsored links or in the text of the sponsored links themselves, and thus the district court specifically found that "eBay did not fully discon-

tinue the practice of advertising Tiffany goods on eBay through sponsored links." *Id.* at 70a.

In early 2003, Tiffany discovered that vendors were using eBay to sell large quantities of counterfeit Tiffany merchandise. To assess the extent of this illicit activity, Tiffany conducted two "Buying Programs"—one in 2004 and another in 2005—in which it purchased various Tiffany items on eBay and then determined how many of these items were counterfeit. App., *infra*, 79a–80a. In the 2004 Buying Program, Tiffany found that 73.1% of the goods purchased were counterfeit and only 5% were genuine. *Id.* at 80a.[1] In the 2005 Buying Program, Tiffany found that 75.5% of the items were counterfeit. *Ibid.* Although the district court ultimately concluded that these surveys provide only "limited evidence as to the total percentage of counterfeit goods available on eBay at any given time," *id.* at 82a, it nonetheless found that "a significant portion of the 'Tiffany' sterling silver jewelry listed on the eBay website . . . was counterfeit," *id.* at 83a; *see also id.* at 140a (noting the "voluminous" amount of counterfeit Tiffany merchandise). Indeed, even eBay's own expert "conceded that a substantial amount of the 'Tiffany' jewelry listed on eBay's website—30% or more—could safely be deemed to be counterfeit." *Id.* at 82a.

Tiffany's initial strategy for combating counterfeiting was to bring lawsuits directly against individual counterfeiters. App., *infra*, 70a–71a. Although it pursued several lawsuits against eBay sellers, *id.* at 70a & n.13, Tiffany soon realized that

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[1] Tiffany concluded that the remaining 21.9% were potentially actionable but did not conclusively determine that they were counterfeit. App., *infra*, 80a.

this strategy was ineffective given the large number of counterfeiters on eBay (many of which used multiple usernames) and the fact that these eBay members were typically anonymous. Instead, Tiffany concluded that the better approach was to seek eBay's cooperation in attempting to stop the flow of counterfeit merchandise on its site. *Id.* at 71a.

In May 2003, Tiffany's outside counsel wrote eBay to complain about the "deluge of counterfeit Tiffany merchandise, the vast majority of which has been sold through eBay." App., *infra*, 71a. Noting that there were no authorized third-party vendors for Tiffany merchandise, the letter explained that it should "be apparent to eBay that any seller of a significant lot—*i.e.* five pieces or more—of purported 'Tiffany' jewelry is almost certainly selling counterfeit merchandise." *Id.* at 71a–72a. (In fact, some sellers were listing *thousands* of purported Tiffany items at a time. *See* C.A. App. 108–09.) The letter demanded that eBay immediately remove listings for all counterfeit Tiffany merchandise currently on the eBay website and take steps permanently to eliminate the sale of such counterfeit merchandise. App., *infra*, 72a.

eBay rejected these demands and instead encouraged Tiffany to participate in eBay's Verified Rights Owner ("VeRO") program, a "notice-and-takedown" system under which eBay could remove potentially infringing listings. App., *infra*, 72a; *see also id.* at 63a–66a. To trigger VeRO's takedown procedure, a trademark holder was required to submit a Notice of Claimed Infringement ("NOCI") attesting, under penalty of perjury, that it had a "good-faith belief" that the particular item is infringing. *Id.* at 64a. eBay primarily employed a "three-strikes

rule" for suspensions in response to NOCIs, under which a particular seller generally would be suspended from eBay only after its listings were subject to three NOCIs. *Id.* at 12a, 88a. VeRO did not, however, resolve eBay's massive counterfeiting problem.[2]

Unable to stop counterfeiting on eBay through the VeRO program, Tiffany filed suit. Among other things, it alleged that eBay is liable for contributory trademark infringement under the Lanham Act, as well as the parallel doctrine under New York law.[3] In addition to damages, Tiffany sought an injunction prohibiting eBay from "assisting in or contributing to the offering for sale, sale, advertising and/or promotion in the United States of . . . jewelry bearing the TIFFANY, TIFFANY & CO., or T & CO. trademarks, except for genuine merchandise that in its entirety has been made, sponsored or approved by [Tiffany]." App., *infra*, 187a.

2. After a bench trial, the district court entered judgment for eBay. App., *infra*, 44a–47a, 172a. The court began its analysis by noting that "[i]t is well established that 'liability for trademark infringement can extend beyond those who actually mislabel goods

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[2] To the contrary, "[i]n each year from 2003 through 2006, Tiffany reported substantially more listings [through VeRO] than it did the year prior." App., *infra*, 76a. Tiffany reported 20,915 infringing listings in 2003; 45,252 in 2004; 59,012 in 2005; and 134,779 in 2006. *Ibid.* By the time of trial, Tiffany had reported a total of 284,149 listings. *Ibid.* These figures likely understate the actual number of counterfeit items because they "represent only listings," whereas "a single listing may have offered multiple Tiffany items." *Id.* at 76a n.16.

[3] "The elements required to prevail on trademark infringement . . . under New York common law mirror the Lanham Act claims for trademark infringement . . . ." App., *infra*, 99a.

with the mark of another.'" *Id.* at 115a (quoting *Inwood Labs., Inc.* v. *Ives Labs., Inc.*, 456 U.S. 844, 853 (1982)). Under this Court's decision in *Inwood*, the district court noted, a defendant may be held contributorily liable if it "continues to supply its product to one whom it knows or has reason to know is engaging in trademark infringement." *Id.* at 117a (quoting 456 U.S. at 854).[4]

The district court acknowledged that eBay was well aware that counterfeit Tiffany merchandise was being sold on its website. App., *infra*, 128a. For instance, Tiffany had "apprised eBay of the results of its Buying Programs" and "filed thousands of NOCIs alleging a good faith belief that certain listings were counterfeit or otherwise infringing on Tiffany's marks." *Id.* at 129a. In fact, the district court noted, "eBay was generally aware that counterfeit Tiffany jewelry was being listed and sold on eBay even prior to Tiffany's initial demand letter." *Id.* at 142a (emphasis omitted).

Thus, the district court characterized the relevant issue as "whether eBay's *generalized* knowledge of trademark infringement on its website was sufficient to meet the 'knowledge or reason to know' prong of the *Inwood* test." App., *infra*, 129a (empha-

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[4] *Inwood* arose in the context of a "manufacturer or distributor," 456 U.S. at 854, but the district court recognized that its test for contributory trademark liability applies equally to service providers, like eBay, that "ha[ve] direct control over the means of infringement," App., *infra*, 125a. Although eBay challenged this point before the district court, "[o]n appeal, eBay no longer maintain[ed] that it is not subject to *Inwood*." *Id.* at 23a.

sis in original).[5] The court held that, "while eBay clearly possessed general knowledge as to counterfeiting on its website, such generalized knowledge is insufficient under the *Inwood* test to impose upon eBay an affirmative duty to remedy the problem." *Id.* at 130a. And because "a substantial number of authentic Tiffany goods are sold on eBay" in addition to the counterfeit items, "it . . . cannot be said that generalized knowledge of counterfeiting is sufficient to impute knowledge to eBay of any specific acts of actual infringement." *Id.* at 133a–134a.

3. The Second Circuit affirmed. "For contributory trademark infringement liability to lie," it concluded, "a service provider must have more than a general knowledge or reason to know that its service is being used to sell counterfeit goods." App., *infra*, 27a. Instead, "[s]ome contemporary knowledge of *which particular listings* are infringing or will infringe in the future is necessary." *Id.* at 27a–28a (emphasis added).

Although Tiffany had argued that *Inwood* imposes contributory liability whenever "the defendant knew or should have known that its product or service was being used to further illegal counterfeiting activity," the Second Circuit held that the case did not "establis[h] the contours" of contributory liability because *Inwood* had "explicitly declined to apply [the

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[5] The district court acknowledged that "the situation is distinct with respect to the individual sellers against whom Tiffany filed NOCIs." App., *infra*, 146a. Because "eBay's practice was to promptly remove the challenged listing from its website," however, the district court "conclude[d] that Tiffany has failed to prove that eBay continued to supply its services in instances where it knew or had reason to know of infringement." *Id.* at 147a.

'knows or has reason to know'] prong to the facts then before it." App., *infra*, 28a (internal quotation marks omitted); *see also Inwood*, 456 U.S. at 852 n.12 (declining to reconsider the district court's factual finding that "the petitioners did not continue to provide drugs to retailers whom they knew or should have known were engaged in trademark infringement").[6] The court of appeals instead looked to this Court's "discussion of *Inwood* in a subsequent *copyright* case, *Sony Corp. of America* v. *Universal City Studios, Inc.*, 464 U.S. 417 (1984)." App., *infra*, 28a–29a (emphasis in original).

In *Sony*, this Court rejected claims of contributory copyright infringement against the manufacturers of video cassette recorders that were used by some purchasers to commit copyright infringement. In a footnote, the Court explained that the test for contributory copyright infringement is broader than the test for contributory trademark infringement: "If *Inwood*'s narrow standard for contributory trademark infringement governed here," the Court noted, the plaintiffs' "claim of contributory infringement would merit little discussion" because Sony does not "supply its products to identified individuals known by it to be engaging in continuing infringement of [the plaintiffs'] copyrights." 464 U.S. at 439 n.19.

The Second Circuit acknowledged that this footnote was *dicta* and that it contained, at best, an ab-

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[6] The Second Circuit noted parenthetically that, "insofar as [*Inwood*] speaks to the issue," "the particular phrasing that the Court used—that a defendant will be liable if it 'continues to supply its product to *one* whom it knows or has reason to know is engaging in trademark infringement'—supports the district court's interpretation." App., *infra*, 28a (quoting 456 U.S. at 854) (emphasis added by Second Circuit).

breviated description of the *Inwood* test. App., *infra*, 30a & n.11 (noting that "*Sony* refers to a defendant's knowledge, but not to its constructive knowledge, of a third party's infringing conduct"). Nonetheless, the Second Circuit concluded that *Sony*'s discussion of *Inwood* was controlling because it "constitute[s] the only discussion of [the 'knows or has reason to know'] prong by the Supreme Court of which we are aware." *Id.* at 30a.

The Second Circuit attempted to distinguish *Fonovisa*, which involved counterfeit records sold at a swap meet, only in a footnote. App., *infra*, 34a n.16. The court noted that "eBay's efforts to combat counterfeiting far exceeded the efforts made by the defendants" in *Fonovisa*, and also that "the court in *Fonovisa* merely sustained the plaintiff's complaint against a motion to dismiss." *Ibid.*

The court of appeals therefore "agree[d] with the district court that 'Tiffany's general allegations of counterfeiting failed to provide eBay with the knowledge required under *Inwood*.'" App., *infra*, 30a (quoting *id.* at 136a). Because "Tiffany failed to demonstrate that eBay was supplying its service to individuals who it knew or had reason to know were selling counterfeit Tiffany goods," the Second Circuit "affirm[ed] the judgment of the district court insofar as it holds that eBay is not contributorially liable for trademark infringement." *Id.* at 30a–31a.[7]

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[7] The Second Circuit remanded on Tiffany's separate claim that eBay had engaged in false advertising of Tiffany goods on its website. App., *infra*, 42a. These remand proceedings, which are ongoing, do not address any issue that is relevant to the question presented.

REASONS FOR GRANTING THE PETITION

This Court should grant certiorari to clarify the type of knowledge required to impose liability for contributory trademark infringement. The Second Circuit below split with the Ninth Circuit in holding that the operator of an online marketplace where substantial quantities of counterfeit goods are sold cannot be held contributorily liable unless it has "[s]ome contemporary knowledge of *which particular listings* are infringing or will infringe in the future." App., *infra*, 27a–28a (emphasis added). Particularly given the profound importance of the Second and Ninth Circuits in articulating and developing federal trademark law, this Court's review is warranted.

The need for this Court's guidance on the scope of contributory trademark infringement is particularly intense because, as the Second Circuit recognized, the Court most recently addressed the issue in 1982. The allocation of liability in this context ultimately determines who bears the burden of policing against trademark infringement, yet when the Court last considered the issue, the Internet was practically nonexistent. The Internet has since become an effective and widely used tool for counterfeiters to ply their trade, and the magnitude of that infringement on valuable trademark rights could scarcely have been imagined in 1982.

The decision below is the latest in an ongoing series of cases around the world that have attempted to define, in the face of these unprecedented developments in technology, the circumstances under which eBay and other Internet-based service providers can be held liable for the infringing conduct of their users. *See* App., *infra*, 22a n.8 (citing several foreign cases). The position of federal law on this issue is a

matter for the courts, as contributory trademark infringement has always been a "judicially created doctrine that derives from the common law of torts." *Id.* at 19a. That position should be decided by the highest court in the country, not the Second Circuit.

I. THE SECOND CIRCUIT INCORRECTLY RESOLVED THE QUESTION PRESENTED AND CREATED A SPLIT WITH THE NINTH CIRCUIT.

The Second Circuit held that, "[f]or contributory trademark infringement liability to lie, a service provider must have more than a general knowledge or reason to know that its service is being used to sell counterfeit goods." App., *infra*, 27a. Instead, "[s]ome contemporary knowledge of which particular listings are infringing or will infringe in the future is necessary." *Id.* at 27a–28a. This decision is incorrect and squarely conflicts with the Ninth Circuit's decision in *Fonovisa, Inc.* v. *Cherry Auction, Inc.*, 76 F.3d 259 (9th Cir. 1996).

1. In *Inwood Laboratories, Inc.* v. *Ives Laboratories, Inc.*, this Court held that a defendant is liable for contributory trademark infringement if "it continues to supply its product to one whom it knows or has reason to know is engaging in trademark infringement." 456 U.S. 844, 854 (1982). The Second Circuit interpreted *Inwood* as drawing a distinction between "general" and "specific" knowledge of infringing activity, but the relevant question under *Inwood* is instead whether the defendant has continued to supply its product despite knowledge—whether characterized as "general" or "specific"—that its customers are using that product to commit trademark infringement.

In *Inwood*, the plaintiff manufactured and marketed a patented prescription drug under a registered trademark. 456 U.S. at 846. Once the patent had expired, generic drug companies began manufacturing the drug, using capsules in identical colors to those used by the plaintiff. *Id.* at 847. The plaintiff sued the generic drug manufacturers, claiming that their use of identically colored capsules contributed to the infringing activities of pharmacists who had substituted the generic drug and mislabeled it with the plaintiff's trademark. *Id.* at 849–50.

The district court entered judgment for the defendants, concluding that incidents of mislabeling "occurred too infrequently to justify the inference that the . . . use of imitative colors had 'impliedly invited' druggists to mislabel." 456 U.S. at 853. On appeal, however, the Second Circuit concluded that the district court had failed to give sufficient weight to the "'pattern of illegal substitution and mislabeling.'" *Id.* at 855 (quoting *Ives Labs., Inc.* v. *Darby Drug Co.*, 638 F.2d 538, 543 (2d Cir. 1981)).

This Court reversed. But it did not reverse—as it might have done—because the "pattern" of infringing activity discussed by the Second Circuit was legally insufficient to trigger liability. Instead, it concluded that, under the standard of review following a bench trial, the Second Circuit could not have rejected the district court's factual findings as clearly erroneous. *Inwood*, 456 U.S. at 855–56; *see also Ives Labs., Inc.* v. *Darby Drug Co.*, 488 F. Supp. 394, 397 (E.D.N.Y. 1980) (district court opinion) ("There was no proof of illegal substitution accompanied by mislabeling beyond the few instances referred to on the motion for a preliminary injunction.").

In this case, the Second Circuit believed *Inwood* was of limited value because it did not contain a detailed analysis of the "knows or has reason to know" standard for liability. App., *infra*, 28a. That does not mean, however, that *Inwood* failed to offer *any* meaningful guidance. To the contrary, in articulating the test for contributory trademark infringement, the Court expressly and approvingly relied on Judge Wyzanski's seminal opinion in *Coca-Cola Co.* v. *Snow Crest Beverages, Inc.*, 64 F. Supp. 980 (D. Mass. 1946), *aff'd*, 162 F.2d 280 (1st Cir. 1947), which forecloses any effort to distinguish between "specific" and "general" knowledge in this context.

In *Snow Crest*, Coca-Cola alleged that, "when bars received orders for rum (or whiskey) and Coca-Cola, [they] frequently substituted defendant's product," Polar Cola. 64 F. Supp. at 988. Although Judge Wyzanski ultimately concluded that Coca-Cola had inadequate evidence of this alleged infringement, *id.* at 989–90, his decision recognized that "general" knowledge of infringing activity would be sufficient for liability:

> Plaintiff would have established a case against defendant if . . . plaintiff had given defendant *either* (a) credible information that would have led a normal bottler in defendant's position to believe that so many bar customers specifically ordered "rum (or whiskey) and Coca-Cola" that in view of the volume of defendant's sales many bars must necessarily be passing off defendant's products as Coca-Cola, *or* (b) notice that particular named bars which defendant was continuing to supply were serving defendant's

> product when plaintiff's product was specifically ordered.

Id. at 989–90 (emphases added). Thus, *Snow Crest* recognizes that knowledge of pervasive infringing activity may support contributory liability. And since that decision forms the basis for the test announced in *Inwood*—indeed, the discussion of (b) and (a) in the quoted passage parallels the "knows or has reason to know" prong of *Inwood*—it would be anomalous indeed to conclude that eBay could be held liable *only* based on knowledge of "which particular listings are infringing" and thus could ignore evidence of widespread infringement on its website (including by specific sellers that had previously been identified as infringers). App., *infra*, 28a.

Because *Inwood* and *Snow Crest* thus resolve the question presented here, the Second Circuit had no need to resort to this Court's copyright decision in *Sony Corp. of America* v. *Universal City Studios, Inc.*, 464 U.S. 417 (1984). And it was particularly inappropriate for the Second Circuit to treat acknowledged *dicta* from that decision (App., *infra*, 30a) as requiring a different and more specific type of knowledge than *Inwood* or *Snow Crest* had required.

Sony is, in any event, easily distinguishable from this case and *Inwood*. The defendants in *Sony* "supplie[d] a piece of equipment"—a video cassette recorder—"that is generally capable of copying the entire range of programs that may be televised." 464 U.S. at 436. Each video cassette recorder could be employed for entirely lawful purposes, or was at least "capable of commercially significant noninfringing uses." *Id.* at 442. Once the recorder was sold, Sony had no way to control how it might be used by individual buyers. As this Court therefore recog-

nized, "[i]f vicarious liability is to be imposed on Sony in this case, it must rest on the fact that it has sold equipment with constructive knowledge of the fact that its customers *may* use that equipment to make unauthorized copies of copyrighted material." *Id.* at 439 (emphasis added). The Court concluded that "the business of supplying the equipment that makes [non-infringing] copying feasible should not be stifled simply because the equipment is used by some individuals to make unauthorized reproductions of respondents' works." *Id.* at 446.

None of this has anything to do with eBay's infringing conduct here. eBay has ongoing control over what items may be sold on its marketplace, and it profits handsomely and directly from increased postings and sales whether or not the articles sold are genuine; it has not merely sold an article of commerce that *might* be misused without any ability on its part to control the potentially infringing activity. The issue, therefore, is whether, having created and profited from a marketplace that facilitates vast amounts of trademark infringement, eBay can purport to address that problem through steps that in practice are wholly unequal to the task and simply shift the costs of monitoring that market to the innocent trademark holder. eBay "knows or has reason to know" that its service is widely used for trademark infringement, and that is sufficient under *Inwood* to require eBay to eliminate the infringement—that is, to adopt procedures that actually are *effective* in removing the vast amounts of counterfeit Tiffany items in its for-profit marketplace.

2. In holding that "general" knowledge of infringing activity is insufficient for contributory liability, the decision below brings the Second Circuit into

direct conflict with the Ninth Circuit's decision in *Fonovisa*, which upheld the legal sufficiency of a complaint against a flea-market operator based on allegations that the operator was "aware that vendors . . . were selling counterfeit recordings in violation of [the plaintiff]'s trademarks." 76 F.3d 259, 261 (9th Cir. 1996). Although the district court in this case correctly recognized that "eBay is analogous to a flea market" like the one at issue in *Fonovisa*, App., *infra*, 128a, the Second Circuit nonetheless concluded that eBay could not be held liable for contributory trademark infringement even though it "knew . . . that counterfeit Tiffany products were listed and sold through its website," *id.* at 33a.

This division between the Second and Ninth Circuits is particularly problematic because those circuits each handle more trademark cases than any other regional court of appeals.[8] Yet these two circuits have now staked out quite different positions on the type of knowledge required for contributory trademark infringement: The complaint in *Fonovisa* was legally sufficient *because*, yet eBay prevailed below *even though*, the market operator was aware of widespread counterfeiting in its market. This Court

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[8] *See, e.g.*, Irina D. Manta, *In Search of Validity: A New Model for the Content and Procedural Treatment of Trademark Infringement Surveys*, 24 Cardozo Arts & Ent. L.J. 1027, 1032 n.22 (2007) (discussing statistics based on Westlaw searches and noting that, "[i]n terms of industries, New York City and Los Angeles present the most logical locations for [trademark] suits"); *see also* James C. Duff, Admin. Office of the U.S. Courts, *Judicial Business of the United States Courts: 2009 Annual Report of the Director* 187–200 tbl. C-11 (providing statistics at the district-court level).

should grant certiorari to bring national uniformity to this important issue of trademark law.

a. *Fonovisa* involved claims for contributory trademark infringement "against the operators of a swap meet, sometimes called a flea market, where third-party vendors routinely sell counterfeit recordings that infringe on the plaintiff's . . . trademarks." 76 F.3d at 260. In that case, as here, there was "no dispute for purposes of th[e] appeal that [the operators] were aware that vendors in their swap meet were selling counterfeit recordings in violation of [the plaintiff's] . . . trademarks." *Id.* at 261.

According to the allegations in the complaint, the local sheriff's department had seized more than 38,000 counterfeit recordings at the swap meet just over a year before the plaintiff filed suit, and it notified the swap meet's operators of the seizure. 76 F.3d at 261. After a return visit, the sheriff's department informed the operators of "on-going sales of infringing materials," *ibid.*, and an investigator hired by the plaintiff likewise discovered "between nine and twelve vendors selling counterfeits" on each of several visits to the swap meet, *Fonovisa, Inc.* v. *Cherry Auction, Inc.*, 847 F. Supp. 1492, 1495 (E.D. Cal. 1994).

Although these allegations were undoubtedly sufficient to show that the swap meet's operators had "general knowledge" that their "service [was] being used to sell counterfeit goods," App., *infra*, 27a, the allegations could not establish that the operators knew *which particular recordings*—or even which particular vendors—were infringing. Nonetheless, the Ninth Circuit concluded that the plaintiff had adequately "stated a claim for contributory trademark infringement." 76 F.3d at 265. The court em-

phasized that "a swap meet can not disregard its vendors' blatant trademark violations with impunity." *Ibid.*; *see also id.* at 264 (noting, in the context of a related claim for contributory copyright infringement, that "[t]here is no question that plaintiff adequately alleged the element of knowledge in this case").

b. The Second Circuit held below that, "[f]or contributory trademark infringement liability to lie, a service provider must have more than a general knowledge or reason to know that its service is being used to sell counterfeit goods." App., *infra*, 27a. The Second Circuit attempted to distinguish *Fonovisa* only in a footnote, but neither of its purported distinctions is persuasive.

First, the Second Circuit noted that "eBay's efforts to combat counterfeiting far exceeded the efforts made by the defendants" in *Fonovisa*. App., *infra*, 34a n.16. Yet nothing in the Ninth Circuit's discussion of knowledge turns on the defendants' efforts *vel non* to stop counterfeiting; instead, eBay is liable under *Inwood* if it continued to supply its service after acquiring knowledge or reason to know of the infringing activity. Thus, the critical issue addressed by the Second Circuit was whether *Inwood* required knowledge or reason to know (1) that particular listings on eBay were infringing, or (2) that substantial quantities of counterfeit Tiffany merchandise were listed on eBay. There is no dispute that eBay knew the latter, and if that knowledge were sufficient for liability—as the Ninth Circuit held in *Fonovisa*—

then it is immaterial whether eBay purportedly tried but failed to stop counterfeiting.[9]

Second, the Second Circuit emphasized that *Fonovisa* "merely sustained the plaintiff's complaint against a motion to dismiss." App., *infra*, 34a n.16. But the whole point of a motion to dismiss is to test the *legal sufficiency* of the complaint: whether the pleader has alleged facts that, if true, would "entitle [it] to relief." Fed. R. Civ. P. 8(a)(2); *see also, e.g.*, *Ashcroft* v. *Iqbal*, 129 S. Ct. 1937, 1950 (2009) ("When there are well-pleaded factual allegations, a court should assume their veracity and then determine whether they plausibly give rise to an entitlement to relief."). The Ninth Circuit held that the allegations of knowledge made in *Fonovisa* were sufficient to plead a claim of contributory trademark infringement—that is, the defendant would be liable for contributory trademark infringement if the plaintiff could prove those allegations. Yet the Second Circuit rejected liability for eBay on analogous facts because it concluded, as a matter of law, that "a service provider must have more than a general knowledge or reason to know that its service is being used to sell counterfeit goods." App., *infra*, 27a.

This case cannot meaningfully be distinguished from *Fonovisa*, yet the two decisions reach contrary answers to the question presented. This conflict of authority—between the two most important regional

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[9] This is, of course, simply another way of saying that the *Inwood* test determines which party bears the burden of policing against infringement. If that burden is placed on eBay, as *Fonovisa* requires, then it likewise bears the risk that its efforts at policing—however substantial they may seem to eBay—will fail, and therefore should insure against that risk by charging additional fees.

courts of appeals on trademark issues—warrants the Court's intervention.

II. THE QUESTION PRESENTED IS EXTREMELY IMPORTANT TO ALLOCATING TRADEMARK RIGHTS AND BURDENS IN THE MODERN INTERNET ECONOMY.

As the district court recognized, the issue in this case directly concerns "who should bear the burden of policing" against counterfeit goods: the trademark owner, or a company that has created and continues to profit from a marketplace in which infringing goods are routinely sold. App., *infra*, 45a. This Court last addressed the issue of contributory trademark infringement in 1982. In the nearly 30 years since this Court's decision in *Inwood*, however, much has changed. Trafficking in counterfeit goods has become a global economic problem, and the Internet now provides unprecedented opportunities for counterfeiters to market their illegitimate wares. Courts around the globe have struggled to define the proper scope of contributory liability in this changed world. This Court's review is likewise warranted to ensure that federal trademark law is adequately calibrated to modern economic and technological reality.

1. There can be no debate that counterfeiting is a serious problem. As the House Committee on the Judiciary noted in evaluating legislation that ultimately strengthened the protection for intellectual-property rights, "[c]onservative estimates indicate that the United States economy loses between $200 and $250 billion per year, and has lost 750,000 jobs, due to intellectual property theft." H.R. Rep.

No. 110-617, at 21 (2008).[10] Indeed, "[s]ome estimates indicate that counterfeit and pirated goods comprise six to nine percent of all world trade, the bulk of which violates the intellectual property rights of United States businesses and entrepreneurs." *Ibid.* This problem is all the more serious given the well documented connection between counterfeiting and terrorism: Funds from sales of counterfeit goods can be, and often are, funneled to terrorist groups. *See The Links Between Intellectual Property Crime and Terrorist Financing: Hearing Before the H. Comm. on Int'l Relations*, 108th Cong. (2003) (statement of Ronald K. Noble, Sec'y Gen. of Interpol), *available at* http://www.interpol.int/Public/ICPO/speeches/SG20030716.asp; *see also, e.g.*, Roslyn A. Mazer, *From T-Shirts to Terrorism: That Fake Nike Swoosh May Be Helping to Fund Bin Laden's Network*, Wash. Post, Sept. 30, 2001, at B2.

Trademarks are vitally important to the modern Internet economy and enable purchasers to evaluate the quality of products they can neither see nor touch. Yet, as this case illustrates, electronic commerce has also provided counterfeiters with new opportunities and new markets that simply did not exist 30 years ago. Even in the best of circumstances, "trademark law has labored to keep pace with the

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[10] *See also, e.g.*, Matthew Benjamin, *A World of Fakes*, U.S. News & World Report, July 14, 2003, at 46–47 (estimating the annual cost of counterfeit goods to the U.S. economy at $200–$250 billion), *cited in* App., *infra*, 61a; Office of the Comptroller, City of New York, *Bootleg Billions: The Impact of the Counterfeit Goods Trade on New York City* (2004) ("The dollar exchange of counterfeit goods in New York State during 2003 was estimated to be $34 billion . . . ."), *available at* http://www.comptroller.nyc.gov/bureaus/bud/04reports/Bootleg-Billions.pdf.

proliferation of technology." Matthew Fornaro, *A Parallel Problem: Grey Market Goods and the Internet*, 8 J. Tech. L. & Pol'y 69, 71 (2003) (arguing that "current law does not adequately protect trademark owners, especially in light of increasing Internet-based commerce"). That is particularly true in the context of contributory trademark infringement. When *Inwood* was decided in 1982, the number of computers connected directly to the Internet—so-called Internet "hosts"—was 235; it is now well over 600 million. *See* Internet Systems Consortium, *Internet Host Count History*, http://www.isc.org/solutions/survey/history. Indeed, eBay itself was not founded until 13 years after *Inwood*; when the decision was handed down, eBay's founder was just shy of his 15th birthday.

This case presents the opportunity for the Court to clarify the doctrine of contributory trademark infringement and ensure that this judicially created doctrine reflects—or at least does not ignore—the profound changes that have occurred since the Court last considered the issue.

2. The importance of the question presented is underscored by the fact that the decision below is only the latest in a series of highly publicized decisions, issued by courts in several countries, to address whether eBay and other Internet service-providers can be held liable for trademark infringement committed by their users. *See, e.g.*, App., *infra*, 22a n.8 (noting that "[a] Belgian court declined to hold eBay liable for counterfeit cosmetic products sold through its website," while "French courts . . . have concluded that eBay violated applicable trademark laws"). Given the global reach of websites such as eBay, this Court, and not the courts of appeals,

should decide the correct interpretation of federal law on this issue of international significance.

As commentators have noted, "[t]he ability of trademark owners to knock down knockoffs from the Internet is in flux as courts worldwide issue conflicting rulings on the duty of online sellers and auction brokers to police goods offered on their websites." Valerie Walsh Johnson & Laura P. Merritt, Tiffany *v.* eBay*: A Case of Genuine Disparity in International Court Rulings on Counterfeit Products*, Landslide, Nov./Dec. 2008, at 22, 23. In particular, "[t]he courts vary in answering some of the most significant questions in this area," including the question presented here: whether "an online host's generalized knowledge of the sale of infringing products on its site create[s] liability." *Id.* at 23 (noting "mixed results"); *see also, e.g.*, Ellie Mercado, Note, *As Long As 'It' Is Not Counterfeit: Holding eBay Liable for Secondary Trademark Infringement in the Wake of* LVMH *and* Tiffany, Inc., 28 Cardozo Arts & Ent. L.J. 115, 119 (2010) (noting that French and American courts have "reached very different answers" to the same problem).

In one of the cases noted by the Second Circuit, App., *infra*, 22a n.8, the Commercial Court of Paris awarded €38.6 million in damages to Louis Vuitton, concluding that eBay could have implemented additional measures to stop counterfeiting, such as by requiring sellers to supply a purchase invoice or certificate of authenticity or by immediately terminating the account of any infringing seller, *see S.A. Louis Vuitton Malletier* v. *eBay Inc.*, Tribunal de Commerce de Paris, Première Chambre B, No. 200677799 (June 30, 2008); *see also, e.g.*, Doreen Carvajal, *Court Sides with LVMH over eBay*, N.Y. Times, June 30,

2008, *available at* http://www.nytimes.com/2008/06/30/technology/30iht-lvmh.4.14109529.html. This is not the only foreign decision to award damages against eBay in this context, but even decisions that have declined to award *damages* have recognized the possibility of *injunctive relief*. *See, e.g.*, Eric Pfanner, *French Court Clears eBay in Selling Fake Goods*, N.Y. Times, May 13, 2009 (noting that a French court ordered L'Oréal and eBay to work with a "court-appointed mediator" in order to "improve eBay's counterfeit filters"), *available at* http://www.nytimes.com/2009/05/14/technology/companies/14loreal.html.

Regardless of the relief ultimately awarded, these foreign decisions emphasize that the issue of trademark liability presented in this case is appropriate for resolution at the highest levels of judicial authority. In *L'Oréal S.A.* v. *eBay International AG*, for instance, the English High Court of Justice declined to hold eBay "jointly liable" for damages arising from the sale of counterfeit L'Oréal merchandise but noted that L'Oréal might have an injunctive remedy to "prevent the same or similar infringements in the future." [2009] EWHC 1094 (Ch.) ¶¶ 444 *et seq.*, *available at* 2009 WL 1403418.[11]

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[11] As the High Court explained, the English doctrine of "joint liability" required L'Oréal to establish that eBay "participat[ed] in a common design" with the infringers. *L'Oréal* ¶ 359. Yet the High Court regarded even this issue—involving a more stringent test than the one applicable here—as "a difficult issue to decide." *Id.* ¶ 369; *see also id.* ¶ 370 (admitting "considerable sympathy with the suggestion that eBay Europe could and should deal with the problem of infringement by accepting liability and insuring against it by means of a premium levied on sellers").

eBay conceded that Article 11 of European Parliament and Council Directive 2004/48/EC "required that an injunction be available against an intermediary whose services had been used to commit . . . infringement," but "submitted . . . that Article 11 merely required that an injunction be available against the intermediary to prevent the continuation of *that specific act of infringement*. *Id.* ¶ 464 (emphasis added). Rather than resolve the issue directly, the High Court recognized that "the guidance of the [European Court of Justice] is required." *Id.* ¶ 465; *see also id.* ¶ 478 (noting that, although the court had discretion "as to whether to make a reference [to the ECJ] or to attempt to decide the issues," "in the circumstances of the present case it is clearly better to make a reference").

Just as the highest court in the European Union is the proper body to determine the scope of European Union law on an issue with such significant international ramifications, this Court is the proper body to decide the issue as a matter of federal law. And the Court should do so in this case. As the English High Court observed, "[t]he sooner the courts of Europe are able to arrive at common answers to these issues, the better." *L'Oréal* ¶ 480. The same is true on this side of the Atlantic.

CONCLUSION

The petition for a writ of certiorari should be granted.

Respectfully submitted.

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August 27, 2010

APPENDIX

APPENDIX A

UNITED STATES COURT OF APPEALS
FOR THE SECOND CIRCUIT

August Term, 2008

(Argued: July 15, 2009 Decided: April 1, 2010)

Docket No. 08-3947-cv

TIFFANY (NJ) INC. and TIFFANY and COMPANY,

Plaintiffs-Appellants,

- v. -

eBay Inc.,

Defendant-Appellee.

Before: SACK and B.D. PARKER, Circuit Judges, and Goldberg, Judge.*

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* The Honorable Richard W. Goldberg, Senior Judge, United States Court of International Trade, sitting by designation.

Appeal from a judgment of the United States District Court for the Southern District of New York. The district court (Richard J. Sullivan, Judge) concluded, *inter alia*, that eBay – the proprietor of a website through which counterfeit Tiffany merchandise was sold – did not, on the facts presented, engage in trademark infringement, false advertising, or trademark dilution. We affirm the judgment with respect to Tiffany's claims of trademark infringement and dilution, but remand for further proceedings with respect to Tiffany's claim of false advertising.

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Fred von Lohmann, Michael Kwum, The Electronic Frontier Foundation, San Francisco, CA, for Amici Curiae The Electronic Frontier Foundation, Public Citizen, and Public Knowledge.

SACK, Circuit Judge:

eBay, Inc. ("eBay"), through its eponymous online marketplace, has revolutionized the online sale of goods, especially used goods. It has facilitated the buying and selling by hundreds of millions of people and entities, to their benefit and eBay's profit. But that marketplace is sometimes employed by users as a means to perpetrate fraud by selling counterfeit goods.

Plaintiffs Tiffany (NJ) Inc. and Tiffany and Company (together, "Tiffany") have created and cultivated a brand of jewelry bespeaking high-end quality and style. Based on Tiffany's concern that some use eBay's website to sell counterfeit Tiffany merchandise, Tiffany has instituted this action against eBay, asserting various causes of action – sounding in trademark infringement, trademark dilution and false advertising – arising from eBay's advertising and listing practices. For the reasons set forth below, we affirm the district court's judgment with respect to Tiffany's claims of trademark infringement and dilution but remand for further proceedings with respect to Tiffany's false advertising claim.

BACKGROUND

By opinion dated July 14, 2008, following a week-long bench trial, the United States District Court for the Southern District of New York (Richard J. Sullivan, Judge) set forth its findings of fact and conclusions of law. *Tiffany (NJ) Inc. v. eBay, Inc.*, 576 F. Supp. 2d 463 (S.D.N.Y. 2008) ("*Tiffany*"). When reviewing a judgment following a bench trial in the district court, we review the court's findings of fact for clear error and its conclusions of law *de novo*. *Giordano v. Thomson*, 564 F.3d 163, 168 (2d Cir. 2009). Except where noted otherwise, we conclude that the district court's findings of fact are not clearly erroneous. We therefore rely upon those non-erroneous findings in setting forth the facts of, and considering, this dispute.

eBay

eBay[1] is the proprietor of www.ebay.com, an Internet-based marketplace that allows those who register with it to purchase goods from and sell goods to one another. It "connect[s] buyers and sellers and [] enable[s] transactions, which are carried out directly between eBay members." *Tiffany*, 576 F. Supp. 2d at 475.[2] In its auction and listing services,

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[1] eBay appears to be short for Echo Bay – the name of eBay's founder's consulting firm was Echo Bay Technology Group. The name "EchoBay" was already in use, so eBay was employed as the name for the website. *See* http://en.wikipedia.org/wiki/EBay#Origins_and_history (last visited Feb. 26, 2010); http://news.softpedia.com/news/eBay-Turns-Ten-Happy-Birthday-7502.shtml (last visited Feb. 26, 2010).

[2] In addition to providing auction-style and fixed-priced listings, eBay is also the proprietor of a traditional classified service. *Id.* at 474.

it "provides the venue for the sale [of goods] and support for the transaction[s], [but] it does not itself sell the items" listed for sale on the site, *id.* at 475, nor does it ever take physical possession of them, *id.* Thus, "eBay generally does not know whether or when an item is delivered to the buyer." *Id.*

eBay has been enormously successful. More than six million new listings are posted on its site daily. *Id.* At any given time it contains some 100 million listings. *Id.*

eBay generates revenue by charging sellers to use its listing services. For any listing, it charges an "insertion fee" based on the auction's starting price for the goods being sold and ranges from $0.20 to $4.80. *Id.* For any completed sale, it charges a "final value fee" that ranges from 5.25% to 10% of the final sale price of the item. *Id.* Sellers have the option of purchasing, at additional cost, features "to differentiate their listings, such as a border or bold-faced type." *Id.*

eBay also generates revenue through a company named PayPal, which it owns and which allows users to process their purchases. PayPal deducts, as a fee for each transaction that it processes, 1.9% to 2.9% of the transaction amount, plus $0.30. *Id.* This gives eBay an added incentive to increase both the volume and the price of the goods sold on its website. *Id.*

Tiffany

Tiffany is a world-famous purveyor of, among other things, branded jewelry. *Id.* at 471-72. Since 2000, all new Tiffany jewelry sold in the United States has been available exclusively through Tiffany's retail stores, catalogs, and website, and through its Corporate Sales Department. *Id.* at 472-

73. It does not use liquidators, sell overstock merchandise, or put its goods on sale at discounted prices. *Id.* at 473. It does not – nor can it, for that matter – control the "legitimate secondary market in authentic Tiffany silvery jewelry," i.e., the market for second-hand Tiffany wares. *Id.* at 473. The record developed at trial "offere[d] little basis from which to discern the actual availability of authentic *Tiffany* silver jewelry in the secondary market." *Id.* at 474.

Sometime before 2004, Tiffany became aware that counterfeit Tiffany merchandise was being sold on eBay's site. Prior to and during the course of this litigation, Tiffany conducted two surveys known as "Buying Programs," one in 2004 and another in 2005, in an attempt to assess the extent of this practice. Under those programs, Tiffany bought various items on eBay and then inspected and evaluated them to determine how many were counterfeit. *Id.* at 485. Tiffany found that 73.1% of the purported Tiffany goods purchased in the 2004 Buying Program and 75.5% of those purchased in the 2005 Buying Program were counterfeit. *Id.* The district court concluded, however, that the Buying Programs were "methodologically flawed and of questionable value," *id.* at 512, and "provide[d] limited evidence as to the total percentage of counterfeit goods available on eBay at any given time," *id.* at 486. The court nonetheless decided that during the period in which the Buying Programs were in effect, a "significant portion of the 'Tiffany' sterling silver jewelry listed on the eBay website . . . was counterfeit," *id.*, and that eBay knew "that some portion of the Tiffany goods sold on its website might be counterfeit," *Id.* at 507. The court found, however, that "a substantial number of authentic Tiffany goods are [also] sold on eBay." *Id.* at 509.

Reducing or eliminating the sale of all second-hand Tiffany goods, including genuine Tiffany pieces, through eBay's website would benefit Tiffany in at least one sense: It would diminish the competition in the market for genuine Tiffany merchandise. *See id.* at 510 n.36 (noting that "there is at least some basis in the record for eBay's assertion that one of Tiffany's goals in pursuing this litigation is to shut down the legitimate secondary market in authentic Tiffany goods"). The immediate effect would be loss of revenue to eBay, even though there might be a countervailing gain by eBay resulting from increased consumer confidence about the bona fides of other goods sold through its website.

Anti-Counterfeiting Measures

Because eBay facilitates many sales of Tiffany goods, genuine and otherwise, and obtains revenue on every transaction, it generates substantial revenues from the sale of purported Tiffany goods, some of which are counterfeit. "eBay's Jewelry & Watches category manager estimated that, between April 2000 and June 2004, eBay earned $4.1 million in revenue from completed listings with 'Tiffany' in the listing title in the Jewelry & Watches category." *Id.* at 481. Although eBay was generating revenue from all sales of goods on its site, including counterfeit goods, the district court found eBay to have "an interest in eliminating counterfeit Tiffany merchandise from eBay . . . to preserve the reputation of its website as a safe place to do business." *Id.* at 469. The buyer of fake Tiffany goods might, if and when the forgery was detected, fault eBay. Indeed, the district court found that "buyers . . . complain[ed] to eBay" about the sale of counterfeit Tiffany goods. *Id.* at 487. "[D]uring the last six weeks of 2004, 125 con-

sumers complained to eBay about purchasing 'Tiffany' items through the eBay website that they believed to be counterfeit." *Id.*

Because eBay "never saw or inspected the merchandise in the listings," its ability to determine whether a particular listing was for counterfeit goods was limited. *Id.* at 477-78. Even had it been able to inspect the goods, moreover, in many instances it likely would not have had the expertise to determine whether they were counterfeit. *Id.* at 472 n.7 ("[I]n many instances, determining whether an item is counterfeit will require a physical inspection of the item, and some degree of expertise on the part of the examiner.").

Notwithstanding these limitations, eBay spent "as much as $20 million each year on tools to promote trust and safety on its website." *Id.* at 476. For example, eBay and PayPal set up "buyer protection programs," under which, in certain circumstances, the buyer would be reimbursed for the cost of items purchased on eBay that were discovered not to be genuine. *Id.* at 479. eBay also established a "Trust and Safety" department, with some 4,000 employees "devoted to trust and safety" issues, including over 200 who "focus exclusively on combating infringement" and 70 who "work exclusively with law enforcement." *Id.* at 476.

By May 2002, eBay had implemented a "fraud engine," "which is principally dedicated to ferreting out illegal listings, including counterfeit listings." *Id.* at 477. eBay had theretofore employed manual searches for keywords in listings in an effort to "identify blatant instances of potentially infringing . . . activity." *Id.* "The fraud engine uses rules and complex models that automatically search for activ-

ity that violates eBay policies." *Id.* In addition to identifying items actually advertised as counterfeit, the engine also incorporates various filters designed to screen out less-obvious instances of counterfeiting using "data elements designed to evaluate listings based on, for example, the seller's Internet protocol address, any issues associated with the seller's account on eBay, and the feedback the seller has received from other eBay users." *Id.* In addition to general filters, the fraud engine incorporates "Tiffany-specific filters," including "approximately 90 different keywords" designed to help distinguish between genuine and counterfeit Tiffany goods. *Id.* at 491. During the period in dispute,[3] eBay also "periodically conducted [manual] reviews of listings in an effort to remove those that might be selling counterfeit goods, including Tiffany goods." *Id.*

For nearly a decade, including the period at issue, eBay has also maintained and administered the "Verified Rights Owner ('VeRO') Program" – a "'notice-and-takedown' system" allowing owners of intellectual property rights, including Tiffany, to "report to eBay any listing offering potentially infringing items, so that eBay could remove such reported listings." *Id.* at 478. Any such rights-holder with a "good-faith belief that [a particular listed] item infringed on a copyright or a trademark" could report the item to eBay, using a "Notice Of Claimed In-

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[3] In its findings, the district court often used the past tense to describe eBay's anticounterfeiting efforts. We do not take this usage to suggest that eBay has discontinued these efforts, but only to emphasize that its findings are issued with respect to a particular period of time prior to the completion of trial and issuance of its decision.

fringement form or NOCI form." *Id.* During the period under consideration, eBay's practice was to remove reported listings within twenty-four hours of receiving a NOCI, but eBay in fact deleted seventy to eighty percent of them within twelve hours of notification. *Id.*

On receipt of a NOCI, if the auction or sale had not ended, eBay would, in addition to removing the listing, cancel the bids and inform the seller of the reason for the cancellation. If bidding had ended, eBay would retroactively cancel the transaction. *Id.* In the event of a cancelled auction, eBay would refund the fees it had been paid in connection with the auction. *Id.* at 478-79.

In some circumstances, eBay would reimburse the buyer for the cost of a purchased item, provided the buyer presented evidence that the purchased item was counterfeit. *Id.* at 479.[4] During the relevant time period, the district court found, eBay "never refused to remove a reported Tiffany listing, acted in good faith in responding to Tiffany's NOCIs, and always provided Tiffany with the seller's contact information." *Id.* at 488.

In addition, eBay has allowed rights owners such as Tiffany to create an "About Me" webpage on eBay's website "to inform eBay users about their products, intellectual property rights, and legal posi-

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[4] We note, however, that, Tiffany's "About Me" page on the eBay website states that Tiffany does not authenticate merchandise. Pl.'s Ex. 290.

Thus, it may be difficult for a purchaser to proffer evidence to eBay supporting a suspicion that the "Tiffany" merchandise he or she bought is counterfeit.

tions." *Id.* at 479. eBay does not exercise control over the content of those pages in a manner material to the issues before us.

Tiffany, not eBay, maintains the Tiffany "About Me" page. With the headline **"BUYER BEWARE,"** the page begins: **"Most of the purported TIFFANY & CO. silver jewelry and packaging available on eBay is counterfeit."** Pl.'s Ex. 290 (bold face type in original). It also says, *inter alia*:

> The only way you can be certain that you are purchasing a genuine TIFFANY & CO. product is to purchase it from a Tiffany & Co. retail store, via our website (www.tiffany.com) or through a Tiffany & Co. catalogue. Tiffany & Co. stores do not authenticate merchandise. A good jeweler or appraiser may be able to do this for you.

Id.

In 2003 or early 2004, eBay began to use "special warning messages when a seller attempted to list a Tiffany item." *Tiffany*, 576 F. Supp. 2d at 491. These messages "instructed the seller to make sure that the item was authentic Tiffany merchandise and informed the seller that eBay 'does not tolerate the listing of replica, counterfeit, or otherwise unauthorized items' and that violation of this policy 'could result in suspension of [the seller's] account.'" *Id.* (alteration in original). The messages also provided a link to Tiffany's "About Me" page with its "buyer beware" disclaimer. *Id.* If the seller "continued to list an item despite the warning, the listing was flagged for review." *Id.*

In addition to cancelling particular suspicious transactions, eBay has also suspended from its web-

site "'hundreds of thousands of sellers every year,' tens of thousands of whom were suspected [of] having engaged in infringing conduct." *Id.* at 489. eBay primarily employed a "'three strikes rule'" for suspensions, but would suspend sellers after the first violation if it was clear that "the seller 'listed a number of infringing items,' and '[selling counterfeit merchandise] appears to be the only thing they've come to eBay to do.'" *Id.* But if "a seller listed a potentially infringing item but appeared overall to be a legitimate seller, the 'infringing items [were] taken down, and the seller [would] be sent a warning on the first offense and given the educational information, [and] told that . . . if they do this again, they will be suspended from eBay.'" *Id.* (alterations in original).[5]

By late 2006, eBay had implemented additional antifraud measures: delaying the ability of buyers to view listings of certain brand names, including Tiffany's, for 6 to 12 hours so as to give rights-holders such as Tiffany more time to review those listings; developing the ability to assess the number of items

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[5] According to the district court, "eBay took appropriate steps to warn and then to suspend sellers when eBay learned of potential trademark infringement under that seller's account." *Tiffany*, 576 F. Supp. 2d at 489. The district court concluded that it was understandable that eBay did not have a "hard-and-fast, one-strike rule" of suspending sellers because a NOCI "did not constitute a definitive finding that the listed item was counterfeit" and because "suspension was a very serious matter, particularly to those sellers who relied on eBay for their livelihoods." *Id.* The district court ultimately found eBay's policy to be "appropriate and effective in preventing sellers from returning to eBay and re-listing potentially counterfeit merchandise." *Id.*

listed in a given listing; and restricting one-day and three-day auctions and cross-border trading for some brand-name items. *Id.* at 492.

The district court concluded that "eBay consistently took steps to improve its technology and develop anti-fraud measures as such measures became technologically feasible and reasonably available." *Id.* at 493.

eBay's Advertising

At the same time that eBay was attempting to reduce the sale of counterfeit items on its website, it actively sought to promote sales of premium and branded jewelry, including Tiffany merchandise, on its site. *Id.* at 479-80. Among other things, eBay "advised its sellers to take advantage of the demand for Tiffany merchandise as part of a broader effort to grow the Jewelry & Watches category." *Id.* at 479. And prior to 2003, eBay advertised the availability of Tiffany merchandise on its site. eBay's advertisements trumpeted "Mother's Day Gifts!," Pl.'s Exs. 392, 1064, a "Fall FASHION BRAND BLOWOUT," Pl.'s Ex. 392, "Jewelry Best Sellers," *id.*, "GREAT BRANDS, GREAT PRICES," Pl.'s Ex. 1064, or "Top Valentine's Deals," Pl.'s Ex. 392, among other promotions. It encouraged the viewer to "GET THE FINER THINGS." Pl.'s Ex. 392. These advertisements provided the reader with hyperlinks, at least one of each of which was related to Tiffany merchandise – "Tiffany," "Tiffany & Co. under $150," "Tiffany & Co," "Tiffany Rings," or "Tiffany & Co. under $50." Pl.'s Exs. 392, 1064.

eBay also purchased sponsored-link advertisements on various search engines to promote the availability of Tiffany items on its website. *Tiffany*, 576 F. Supp. 2d at 480. In one such case, in the form

of a printout of the results list from a search on Yahoo! for "Tiffany," the second sponsored link read "**Tiffany** on eBay. Find **tiffany** items at low prices. With over 5 million items for sale every day, you'll find all kinds of unique [unreadable] Marketplace. www.ebay.com." Pl.'s Ex. 1065 (bold face type in original). Tiffany complained to eBay of the practice in 2003, and eBay told Tiffany that it had ceased buying sponsored links. *Tiffany*, 576 F. Supp. 2d at 480. The district court found, however, that eBay continued to do so indirectly through a third party. *Id.*

Procedural History

By amended complaint dated July 15, 2004, Tiffany initiated this action. It alleged, *inter alia*, that eBay's conduct – i.e., facilitating and advertising the sale of "Tiffany" goods that turned out to be counterfeit – constituted direct and contributory trademark infringement, trademark dilution, and false advertising. On July 14, 2008, following a bench trial, the district court, in a thorough and thoughtful opinion, set forth its findings of fact and conclusions of law, deciding in favor of eBay on all claims.

Tiffany appeals from the district court's judgment for eBay.

DISCUSSION

We review the district court's findings of fact for clear error and its conclusions of law *de novo*. *Giordano v. Thomson*, 564 F.3d 163, 168 (2d Cir. 2009).

I. Direct Trademark Infringement

Tiffany alleges that eBay infringed its trademark in violation of section 32 of the Lanham Act.[6] The district court described this as a claim of "direct trademark infringement," *Tiffany*, 576 F. Supp. 2d at 493, and we adopt that terminology. Under section 32, "the owner of a mark registered with the Patent and Trademark Office can bring a civil action against a person alleged to have used the mark without the owner's consent." *ITC Ltd. v. Punchgini, Inc.*, 482 F.3d 135, 145-46 (2d Cir.), *cert. denied*, 552 U.S. 827 (2007). We analyze such a claim "under a familiar two-prong test. The test looks first to whether the plaintiff's mark is entitled to protection, and second to whether the defendant's use of the mark is likely to cause consumers confusion as to the origin or sponsorship of the defendant's goods." *Savin Corp. v. Savin Group*, 391 F.3d 439, 456 (2d Cir. 2004) (al-

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6 That section states in pertinent part:

> Any person who shall, without the consent of the registrant – (a) use in commerce any reproduction, counterfeit, copy, or colorable imitation of a registered mark in connection with the sale, offering for sale, distribution, or advertising of any goods or services on or in connection with which such use is likely to cause confusion, or to cause mistake, or to deceive; . . . shall be liable in a civil action by the registrant for the remedies hereinafter provided.

15 U.S.C. § 1114(1)(a). Tiffany's complaint asserts causes of action under both the Lanham Act and New York State common law. The claims are composed of the same elements. We therefore analyze them together. *See, e.g., Standard & Poor's Corp. v. Commodity Exch., Inc.*, 683 F.2d 704, 708 (2d Cir. 1982).

terations incorporated and ellipses omitted), *cert. denied*, 546 U.S. 822 (2005).

In the district court, Tiffany argued that eBay had directly infringed its mark by using it on eBay's website and by purchasing sponsored links containing the mark on Google and Yahoo! *Tiffany*, 576 F. Supp. 2d at 494. Tiffany also argued that eBay and the sellers of the counterfeit goods using its site were jointly and severally liable. *Id.* The district court rejected these arguments on the ground that eBay's use of Tiffany's mark was protected by the doctrine of nominative fair use. *Id.* at 494-95.

The doctrine of nominative fair use allows "[a] defendant [to] use a plaintiff's trademark to identify the plaintiff's goods so long as there is no likelihood of confusion about the source of [the] defendant's product or the mark-holder's sponsorship or affiliation." *Merck & Co. v. Mediplan Health Consulting, Inc.*, 425 F. Supp. 2d 402, 413 (S.D.N.Y. 2006). The doctrine apparently originated in the Court of Appeals for the Ninth Circuit. *See New Kids on the Block v. News Am. Publ'g, Inc.*, 971 F.2d 302 (9th Cir. 1992). To fall within the protection, according to that court: "First, the product or service in question must be one not readily identifiable without use of the trademark; second, only so much of the mark or marks may be used as is reasonably necessary to identify the product or service; and third, the user must do nothing that would, in conjunction with the mark, suggest sponsorship or endorsement by the trademark holder." *Id.* at 308.

The Court of Appeals for the Third Circuit has endorsed these principles. *See Century 21 Real Es-*

tate Corp. v. Lendingtree, Inc., 425 F.3d 211, 222 (3d Cir. 2005).[7] We have referred to the doctrine, albeit without adopting or rejecting it. *See, e.g.*, *Chambers v. Time Warner, Inc.*, 282 F.3d 147, 156 (2d Cir. 2002) (noting that the district court had "[a]ppl[ied] the standard for non-trademark or 'nominative' fair use set forth by the Ninth Circuit"). Other circuits have done similarly. *See, e.g.*, *Univ. Commc'n Sys., Inc. v. Lycos, Inc.*, 478 F.3d 413, 424 (1st Cir. 2007); *Pebble Beach Co. v. Tour 18 I Ltd.*, 155 F.3d 526, 547 (5th Cir. 1998), *abrogated on other grounds by Traf-Fix Devices, Inc. v. Mktg. Displays, Inc.*, 532 U.S. 23 (2001).

We need not address the viability of the doctrine to resolve Tiffany's claim, however. We have recognized that a defendant may lawfully use a plaintiff's trademark where doing so is necessary to describe the plaintiff's product and does not imply a false affiliation or endorsement by the plaintiff of the defendant. "While a trademark conveys an exclusive right to the use of a mark in commerce in the area reserved, that right generally does not prevent one who trades a branded product from accurately describing it by its brand name, so long as the trader does not create confusion by implying an affiliation with the owner of the product." *Dow Jones & Co. v. Int'l Sec. Exch., Inc.*, 451 F.3d 295, 308 (2d Cir. 2006); *see also Polymer Tech. Corp. v. Mimran*, 975 F.2d 58, 61-62

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[7] The Third Circuit treats the doctrine as an affirmative defense, *see Century 21*, 425 F.3d at 217-32, while the Ninth Circuit views the doctrine as a modification to the likelihood-of-confusion analysis of the plaintiff's underlying infringement claim, *see Playboy Enters. v. Welles*, 279 F.3d 796, 801 (9th Cir. 2002).

(2d Cir. 1992) ("As a general rule, trademark law does not reach the sale of genuine goods bearing a true mark even though the sale is not authorized by the mark owner" (footnote omitted)); *cf. Prestonettes, Inc. v. Coty*, 264 U.S. 359, 368 (1924) (when a "mark is used in a way that does not deceive the public," there is "no such sanctity in the word as to prevent its being used to tell the truth. It is not taboo.").

We agree with the district court that eBay's use of Tiffany's mark on its website and in sponsored links was lawful. eBay used the mark to describe accurately the genuine Tiffany goods offered for sale on its website. And none of eBay's uses of the mark suggested that Tiffany affiliated itself with eBay or endorsed the sale of its products through eBay's website.

In addition, the "About Me" page that Tiffany has maintained on eBay's website since 2004 states that "[m]ost of the purported 'TIFFANY & CO.' silver jewelry and packaging available on eBay is counterfeit." *Tiffany*, 576 F. Supp. 2d at 479 (internal quotation marks omitted). The page further explained that Tiffany itself sells its products only through its own stores, catalogues, and website. *Id.*

Tiffany argues, however, that even if eBay had the right to use its mark with respect to the resale of genuine Tiffany merchandise, eBay infringed the mark because it knew or had reason to know that there was "a substantial problem with the sale of counterfeit [Tiffany] silver jewelry" on the eBay website. Appellants' Br. 45. As we discuss below, eBay's knowledge *vel non* that counterfeit Tiffany wares were offered through its website is relevant to the issue of whether eBay contributed to the direct infringement of Tiffany's mark by the counterfeiting

vendors themselves, or whether eBay bears liability for false advertising. But it is not a basis for a claim of direct trademark infringement against eBay, especially inasmuch as it is undisputed that eBay promptly removed all listings that Tiffany challenged as counterfeit and took affirmative steps to identify and remove illegitimate Tiffany goods. To impose liability because eBay cannot guarantee the genuineness of all of the purported Tiffany products offered on its website would unduly inhibit the lawful resale of genuine Tiffany goods.

We conclude that eBay's use of Tiffany's mark in the described manner did not constitute direct trademark infringement.

II. Contributory Trademark Infringement

The more difficult issue, and the one that the parties have properly focused our attention on, is whether eBay is liable for contributory trademark infringement -- i.e., for culpably facilitating the infringing conduct of the counterfeiting vendors. Acknowledging the paucity of case law to guide us, we conclude that the district court correctly granted judgment on this issue in favor of eBay.

A. Principles

Contributory trademark infringement is a judicially created doctrine that derives from the common law of torts. *See, e.g., Hard Rock Café Licensing Corp. v. Concession Servs., Inc.*, 955 F.2d 1143, 1148 (7th Cir. 1992); *cf. Metro-Goldwyn-Mayer Studios Inc. v. Grokster, Ltd.*, 545 U.S. 913, 930 (2005) ("[T]hese doctrines of secondary liability emerged from common law principles and are well established in the law.") (citations omitted). The Supreme Court most recently dealt with the subject in *Inwood Labo-*

ratories, Inc. v. Ives Laboratories, Inc., 456 U.S. 844 (1982). There, the plaintiff, Ives, asserted that several drug manufacturers had induced pharmacists to mislabel a drug the defendants produced to pass it off as Ives'. *See id.* at 847-50. According to the Court, "if a manufacturer or distributor intentionally induces another to infringe a trademark, or if it continues to supply its product to one whom it knows or has reason to know is engaging in trademark infringement, the manufacturer or distributor is contributorially responsible for any harm done as a result of the deceit." *Id.* at 854.[8] The Court ultimately

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[8] The Supreme Court cited two cases in support of this proposition: *William R. Warner & Co. v. Eli Lilly & Co.*, 265 U.S. 526 (1924), and *Coca-Cola Co. v. Snow Crest Beverages, Inc.*, 64 F. Supp. 980 (D. Mass. 1946) (Wyzanski, J.), *aff'd*, 162 F.2d 280 (1st Cir.), *cert. denied*, 332 U.S. 809 (1947).

Like *Inwood, Eli Lilly* involved an allegation by a plaintiff drug manufacturer that a defendant drug manufacturer had intentionally induced distributors to pass off the defendant's drug to purchasers as the plaintiff's. 265 U.S. at 529-30. The Supreme Court granted the plaintiff's request for an injunction, stating that "[o]ne who induces another to commit a fraud and furnishes the means of consummating it is equally guilty and liable for the injury." *Id.* at 530-31.

In *Snow Crest*, the Coca-Cola Company claimed that a rival soft drink maker had infringed Coca-Cola's mark because bars purchasing the rival soft drink had substituted it for Coca-Cola when patrons requested a "rum (or whiskey) and Coca-Cola." 64 F. Supp. at 982, 987. Judge Wyzanski entered judgment in favor of the defendant primarily because there was insufficient evidence of such illicit substitutions taking place. *Id.* at 990. In doing so, the court stated that "[b]efore he can himself be held as a wrongdoer o[r] contributory infringer one who supplies another with the instruments by which that other commits a tort, must be shown to have knowledge that the other will or can

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decided to remand the case to the Court of Appeals after concluding it had improperly rejected factual findings of the district court favoring the defendant manufacturers. *Id.* at 857-59.

Inwood's test for contributory trademark infringement applies on its face to manufacturers and distributors of goods. Courts have, however, extended the test to providers of services.

The Seventh Circuit applied *Inwood* to a lawsuit against the owner of a swap meet, or "flea market," whose vendors were alleged to have sold infringing Hard Rock Café T-shirts. *See Hard Rock Café*, 955 F.2d at 1148-49. The court "treated trademark infringement as a species of tort," *id.* at 1148, and analogized the swap meet owner to a landlord or licensor, on whom the common law "imposes the same duty . . . [as *Inwood*] impose[s] on manufacturers and distributors," *id.* at 1149; *see also Fonovisa, Inc. v. Cherry Auction, Inc.*, 76 F.3d 259 (9th Cir. 1996) (adopting *Hard Rock Café*'s reasoning and applying *Inwood* to a swap meet owner).

Speaking more generally, the Ninth Circuit concluded that *Inwood*'s test for contributory trademark infringement applies to a service provider if he or she exercises sufficient control over the infringing conduct. *Lockheed Martin Corp. v. Network Solutions, Inc.*, 194 F.3d 980, 984 (9th Cir. 1999); *see also id.* ("Direct control and monitoring of the instrumentality used by a third party to infringe the plaintiff's mark permits the expansion of *Inwood Lab.*'s 'sup-

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reasonably be expected to commit a tort with the supplied instrument." *Id.* at 989.

plies a product' requirement for contributory infringement.").

We have apparently addressed contributory trademark infringement in only two related decisions, *see Polymer Tech. Corp. v. Mimran*, 975 F.2d 58, 64 (2d Cir. 1992) ("*Polymer I*"); *Polymer Tech. Corp. v. Mimran*, 37 F.3d 74, 81 (2d Cir. 1994) ("*Polymer II*"), and even then in little detail. Citing *Inwood*, we said that "[a] distributor who intentionally induces another to infringe a trademark, or continues to supply its product to one whom it knows or has reason to know is engaging in trademark infringement, is contributorially liable for any injury." *Polymer I*, 975 F.2d at 64.

The limited case law leaves the law of contributory trademark infringement ill-defined. Although we are not the first court to consider the application of *Inwood* to the Internet, *see, e.g.*, *Lockheed*, 194 F.3d 980, *supra* (Internet domain name registrar), we are apparently the first to consider its application to an online marketplace.[8]

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[8] European courts have done so. A Belgian court declined to hold eBay liable for counterfeit cosmetic products sold through its website. *See Lancôme v. eBay*, Brussels Commercial Court (Aug. 12, 2008), Docket No. A/07/06032. French courts, by contrast, have concluded that eBay violated applicable trademark laws. *See, e.g.*, *S.A. Louis Vuitton Malletier v. eBay, Inc.*, Tribunal de Commerce de Paris, Premiere Chambre B. (Paris Commercial Court), Case No. 200677799 (June 30, 2008); *Hermes v. eBay*, Troyes High Court (June 4, 2008), Docket No. 06/0264; *see also* Max Colchester, "EBay to Pay Damages To Unit of LVMH," *The Wall Street Journal*, Feb. 12, 2010, http://online.wsj.com/article_email/SB10001424052748704337004575059523018541764-lMyQjAxMTAwMDEwMjExNDIyWj.html (last visited Mar. 1,

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B. Discussion

1. Does *Inwood* Apply?

In the district court, the parties disputed whether eBay was subject to the *Inwood* test. *See Tiffany*, 576 F. Supp. 2d at 504. eBay argued that it was not because it supplies a service while *Inwood* governs only manufacturers and distributors of products. *Id.* The district court rejected that distinction. It adopted instead the reasoning of the Ninth Circuit in Lockheed to conclude that *Inwood* applies to a service provider who exercises sufficient control over the means of the infringing conduct. *Id.* at 505-06. Looking "to the extent of the control exercised by eBay over its sellers' means of infringement," the district court concluded that *Inwood* applied in light of the "significant control" eBay retained over the transactions and listings facilitated by and conducted through its website. *Id.* at 505-07.

On appeal, eBay no longer maintains that it is not subject to *Inwood*.[9] We therefore assume with-

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2010) ("A Paris court Thursday ordered eBay to pay Louis Vuitton €200,000 ($275,000) in damages and to stop paying search engines to direct certain key words to the eBay site."); *see generally*, Valerie Walsh Johnson & Laura P. Merritt, TIFFANY v. EBAY: A Case of Genuine Disparity in International Court Rulings on Counterfeit Products, 1 No. 2 Landslide 22 (2008) (surveying decisions by European courts in trademark infringement cases brought against eBay).

[9] Amici do so claim. *See* Electronic Frontier Foundation et al. Amici Br. 6 (arguing that *Inwood* should "not govern where, as here, the alleged contributory infringer has no direct means to establish whether there is any act of direct infringement in the first place"). We decline to consider this argument. "Although an *amicus* brief can be helpful in elaborating issues properly

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out deciding that *Inwood*'s test for contributory trademark infringement governs.

2. Is eBay Liable Under *Inwood*?

The question that remains, then, is whether eBay is liable under the *Inwood* test on the basis of the services it provided to those who used its website to sell counterfeit Tiffany products. As noted, when applying *Inwood* to service providers, there are two ways in which a defendant may become contributorially liable for the infringing conduct of another: first, if the service provider "intentionally induces another to infringe a trademark," and second, if the service provider "continues to supply its [service] to one whom it knows or has reason to know is engaging in trademark infringement." *Inwood*, 456 U.S. at 854. Tiffany does not argue that eBay induced the sale of counterfeit Tiffany goods on its website – the circumstances addressed by the first part of the *Inwood* test. It argues instead, under the second part of the *Inwood* test, that eBay continued to supply its services to the sellers of counterfeit Tiffany goods while knowing or having reason to know that such sellers were infringing Tiffany's mark.

The district court rejected this argument. First, it concluded that to the extent the NOCIs that Tiffany submitted gave eBay reason to know that particular listings were for counterfeit goods, eBay did not continue to carry those listings once it learned

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presented by the parties, it is normally not a method for injecting new issues into an appeal, at least in cases where the parties are competently represented by counsel." *Universal City Studios, Inc. v. Corley*, 273 F.3d 429, 445 (2d Cir. 2001).

that they were specious. *Tiffany*, 576 F. Supp. 2d at 515-16. The court found that eBay's practice was promptly to remove the challenged listing from its website, warn sellers and buyers, cancel fees it earned from that listing, and direct buyers not to consummate the sale of the disputed item. *Id.* at 516. The court therefore declined to hold eBay contributorially liable for the infringing conduct of those sellers. *Id.* at 518. On appeal, Tiffany does not appear to challenge this conclusion. In any event, we agree with the district court that no liability arises with respect to those terminated listings.

Tiffany disagrees vigorously, however, with the district court's further determination that eBay lacked sufficient knowledge of trademark infringement by sellers behind other, non-terminated listings to provide a basis for *Inwood* liability. Tiffany argued in the district court that eBay knew, or at least had reason to know, that counterfeit Tiffany goods were being sold ubiquitously on its website. *Id.* at 507-08. As evidence, it pointed to, *inter alia*, the demand letters it sent to eBay in 2003 and 2004, the results of its Buying Programs that it shared with eBay, the thousands of NOCIs it filed with eBay alleging its good faith belief that certain listings were counterfeit, and the various complaints eBay received from buyers claiming that they had purchased one or more counterfeit Tiffany items through eBay's website. *Id.* at 507. Tiffany argued that taken together, this evidence established eBay's knowledge of the widespread sale of counterfeit Tiffany products on its website. Tiffany urged that eBay be held contributorially liable on the basis that despite that knowledge, it continued to make its services available to infringing sellers. *Id.* at 507-08.

The district court rejected this argument. It acknowledged that "[t]he evidence produced at trial demonstrated that eBay had *generalized* notice that some portion of the Tiffany goods sold on its website might be counterfeit." *Id.* at 507 (emphasis in original). The court characterized the issue before it as "whether eBay's *generalized* knowledge of trademark infringement on its website was sufficient to meet the 'knowledge or reason to know' prong of the *Inwood* test." *Id.* at 508 (emphasis in original). eBay had argued that "such generalized knowledge is insufficient, and that the law demands more specific knowledge of individual instances of infringement and infringing sellers before imposing a burden upon eBay to remedy the problem." *Id.*

The district court concluded that "while eBay clearly possessed general knowledge as to counterfeiting on its website, such generalized knowledge is insufficient under the *Inwood* test to impose upon eBay an affirmative duty to remedy the problem." *Id.* at 508. The court reasoned that *Inwood*'s language explicitly imposes contributory liability on a defendant who "continues to supply its product [– in eBay's case, its service –] to *one* whom it knows or has reason to know is engaging in trademark infringement." *Id.* at 508 (emphasis in original). The court also noted that plaintiffs "bear a high burden in establishing 'knowledge' of contributory infringement," and that courts have

> been reluctant to extend contributory trademark liability to defendants where there is some uncertainty as to the extent or the nature of the infringement. In *Inwood*, Justice White emphasized in his concurring opinion that a defendant is not "require[d] . . . to re-

> fuse to sell to dealers who merely might pass off its goods."

Id. at 508-09 (quoting *Inwood*, 456 U.S. at 861 (White, J., concurring) (emphasis and alteration in original).[10]

Accordingly, the district court concluded that for Tiffany to establish eBay's contributory liability, Tiffany would have to show that eBay "knew or had reason to know of specific instances of actual infringement" beyond those that it addressed upon learning of them. *Id.* at 510. Tiffany failed to make such a showing.

On appeal, Tiffany argues that the distinction drawn by the district court between eBay's general knowledge of the sale of counterfeit Tiffany goods through its website, and its specific knowledge as to which particular sellers were making such sales, is a "false" one not required by the law. Appellants' Br. 28. Tiffany posits that the only relevant question is "whether all of the knowledge, when taken together, puts [eBay] on notice that there is a substantial problem of trademark infringement. If so and if it fails to act, [eBay] is liable for contributory trademark infringement." *Id.* at 29.

We agree with the district court. For contributory trademark infringement liability to lie, a service provider must have more than a general knowledge or reason to know that its service is being used to sell counterfeit goods. Some contemporary knowledge of

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[10] The district court found the cases Tiffany relied on for the proposition that general knowledge of counterfeiting suffices to trigger liability to be inapposite. *Id.* at 510.

which particular listings are infringing or will infringe in the future is necessary.

We are not persuaded by Tiffany's proposed interpretation of *Inwood*. Tiffany understands the "lesson of *Inwood*" to be that an action for contributory trademark infringement lies where "the evidence [of infringing activity] – direct or circumstantial, taken as a whole – . . . provide[s] a basis for finding that the defendant knew or should have known that its product or service was being used to further illegal counterfeiting activity." Appellants' Br. 30. We think that Tiffany reads *Inwood* too broadly. Although the *Inwood* Court articulated a "knows or has reason to know" prong in setting out its contributory liability test, the Court explicitly declined to apply that prong to the facts then before it. *See Inwood*, 456 U.S. at 852 n.12 ("The District Court also found that the petitioners did not continue to provide drugs to retailers whom they knew or should have known were engaging in trademark infringement. The Court of Appeals did not discuss that finding, and we do not address it.") (internal citation omitted). The Court applied only the inducement prong of the test. *See id.* at 852-59.

We therefore do not think that *Inwood* establishes the contours of the "knows or has reason to know" prong. Insofar as it speaks to the issue, though, the particular phrasing that the Court used – that a defendant will be liable if it "continues to supply its product to *one* whom it knows or has reason to know is engaging in trademark infringement," *id.* at 854 (emphasis added) – supports the district court's interpretation of *Inwood*, not Tiffany's.

We find helpful the Supreme Court's discussion of *Inwood* in a subsequent *copyright* case, *Sony Corp.*

of America v. Universal City Studios, Inc., 464 U.S. 417 (1984). There, defendant *Sony* manufactured and sold home video tape recorders. *Id.* at 419. Plaintiffs Universal Studios and Walt Disney Productions held copyrights on various television programs that individual television-viewers had taped using the defendant's recorders. *Id.* at 419-20. The plaintiffs contended that this use of the recorders constituted copyright infringement for which the defendants should be held contributorily liable. *Id.* In ruling for the defendants, the Court discussed *Inwood* and the differences between contributory liability in trademark versus copyright law.

> If *Inwood*'s *narrow standard* for contributory trademark infringement governed here, [the plaintiffs'] claim of contributory infringement would merit little discussion. *Sony* certainly does not 'intentionally induce[]' its customers to make infringing uses of [the plaintiffs'] copyrights, nor does it supply its products to *identified individuals known by it* to be engaging in continuing infringement of [the plaintiffs'] copyrights.

Id. at 439 n.19 (quoting *Inwood*, 456 U.S. at 855; emphases added).

Thus, the Court suggested, had the *Inwood* standard applied in *Sony*, the fact that Sony might have known that some portion of the purchasers of its product used it to violate the copyrights of others would not have provided a sufficient basis for contributory liability. *Inwood*'s "narrow standard" would have required knowledge by Sony of "identified individuals" engaging in infringing conduct. Tiffany's reading of *Inwood* is therefore contrary to the interpretation of that case set forth in *Sony*.

Although the Supreme Court's observations in *Sony*, a copyright case, about the "knows or has reason to know" prong of the contributory trademark infringement test set forth in *Inwood* were dicta, they constitute the only discussion of that prong by the Supreme Court of which we are aware. We think them to be persuasive authority here.[11]

Applying *Sony*'s interpretation of *Inwood*, we agree with the district court that "Tiffany's general allegations of counterfeiting failed to provide eBay with the knowledge required under *Inwood*." *Tiffany*, 576 F. Supp. 2d at 511. Tiffany's demand letters and Buying Programs did not identify particular sellers who Tiffany thought were then offering or would offer counterfeit goods. *Id.* at 511-13.[12] And although the NOCIs and buyer complaints gave eBay reason to know that certain sellers had been selling counterfeits, those sellers' listings were removed and repeat offenders were suspended from the eBay site. Thus Tiffany failed to demonstrate that eBay was supplying its service to individuals who it knew or had reason to know were selling counterfeit Tiffany goods.

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[11] In discussing *Inwood*'s "knows or has reason to know" prong of the contributory infringement test, *Sony* refers to a defendant's knowledge, but not to its constructive knowledge, of a third party's infringing conduct. *Sony*, 464 U.S. at 439 n.19. We do not take the omission as altering the test *Inwood* articulates.

[12] The demand letters did say that eBay should presume that sellers offering five or more Tiffany goods were selling counterfeits, *id.* at 511, but we agree with the district court that this presumption was factually unfounded, *id.* at 511-12.

Accordingly, we affirm the judgment of the district court insofar as it holds that eBay is not contributorially liable for trademark infringement.

3. Willful Blindness.

Tiffany and its amici express their concern that if eBay is not held liable except when specific counterfeit listings are brought to its attention, eBay will have no incentive to root out such listings from its website. They argue that this will effectively require Tiffany and similarly situated retailers to police eBay's website – and many others like it – "24 hours a day, and 365 days a year." Council of Fashion Designers of America, Inc. Amicus Br. 5. They urge that this is a burden that most mark holders cannot afford to bear.

First, and most obviously, we are interpreting the law and applying it to the facts of this case. We could not, even if we thought it wise, revise the existing law in order to better serve one party's interests at the expense of the other's.

But we are also disposed to think, and the record suggests, that private market forces give eBay and those operating similar businesses a strong incentive to minimize the counterfeit goods sold on their websites. eBay received many complaints from users claiming to have been duped into buying counterfeit Tiffany products sold on eBay. *Tiffany*, 576 F. Supp. 2d at 487. The risk of alienating these users gives eBay a reason to identify and remove counterfeit list-

ings.[13] Indeed, it has spent millions of dollars in that effort.

Moreover, we agree with the district court that if eBay had reason to suspect that counterfeit Tiffany goods were being sold through its website, and intentionally shielded itself from discovering the offending listings or the identity of the sellers behind them, eBay might very well have been charged with knowledge of those sales sufficient to satisfy *Inwood*'s "knows or has reason to know" prong. *Tiffany*, 576 F. Supp. 2d at 513-14. A service provider is not, we think, permitted willful blindness. When it has reason to suspect that users of its service are infringing a protected mark, it may not shield itself from learning of the particular infringing transactions by looking the other way. *See, e.g.*, *Hard Rock Café*, 955 F.2d at 1149 ("To be willfully blind, a person must suspect wrongdoing and deliberately fail to investigate."); *Fonovisa*, 76 F.3d at 265 (applying *Hard Rock Café*'s reasoning to conclude that "a swap meet can not disregard its vendors' blatant trademark infringements with impunity").[14] In the words of the

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[13] At the same time, we appreciate the argument that insofar as eBay receives revenue from undetected counterfeit listings and sales through the fees it charges, it has an incentive to permit such listings and sales to continue.

[14] To be clear, a service provider is not contributorially liable under *Inwood* merely for failing to anticipate that others would use its service to infringe a protected mark. *Inwood*, 456 U.S. at 854 n.13 (stating that for contributory liability to lie, a defendant must do more than "reasonably anticipate" a third party's infringing conduct (internal quotation marks omitted)). But contributory liability may arise where a defendant is (as was eBay here) made aware that there was infringement on its site but (unlike eBay here) ignored that fact.

Seventh Circuit, "willful blindness is equivalent to actual knowledge for purposes of the Lanham Act." *Hard Rock Café*, 955 F.2d at 1149.[15]

eBay appears to concede that it knew as a general matter that counterfeit Tiffany products were listed and sold through its website. *Tiffany*, 576 F. Supp. 2d at 514. Without more, however, this knowledge is insufficient to trigger liability under *Inwood*. The district court found, after careful consideration,

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[15] The principle that willful blindness is tantamount to knowledge is hardly novel. *See, e.g. Harte-Hanks Commc'ns, Inc. v. Connaughton*, 491 U.S. 657, 659, 692 (1989) (concluding in public-official libel case that "purposeful avoidance of the truth" is equivalent to "knowledge that [a statement] was false or [was made] with reckless disregard of whether it was false" (internal quotation marks omitted)); *United States v. Khorozian*, 333 F.3d 498, 504 (3d Cir. 2003) (acting with willful blindness satisfies the intent requirement of the federal bank fraud statute); *Friedman v. Comm'r*, 53 F.3d 523, 525 (2d Cir. 1995) ("The 'innocent spouse' exemption [from the rule that married couples who file a joint tax return are jointly and severally liable for any tax liability found] was not designed to protect willful blindness or to encourage the deliberate cultivation of ignorance."); *Mattingly v. United States*, 924 F.2d 785, 792 (8th Cir. 1991) (concluding in civil tax fraud case that "the element of knowledge may be inferred from deliberate acts amounting to willful blindness to the existence of fact or acts constituting conscious purpose to avoid enlightenment."); *Morrow Shoe Mfg. Co. v. New England Shoe Co.*, 57 F. 685, 694 (7th Cir. 1893) ("The mind cannot well avoid the conclusion that if they did not know of the fraudulent purposes of Davis it was because they were willfully blind. Such facility of belief, it has been well said, invites fraud, and may justly be suspected of being its accomplice."); *State Street Trust Co. v. Ernst*, 278 N.Y. 104, 112, 15 N.E.2d 416, 419 (1938) ("[H]eedlessness and reckless disregard of consequence [by an accountant] may take the place of deliberate intention.").

that eBay was not willfully blind to the counterfeit sales. *Id.* at 513. That finding is not clearly erroneous.[16] eBay did not ignore the information it was given about counterfeit sales on its website.

III. Trademark Dilution

A. Principles

Federal law allows the owner of a "famous mark" to enjoin a person from using "a mark or trade name in commerce that is likely to cause dilution by blurring or dilution by tarnishment of the famous mark." 15 U.S.C. § 1125(c)(1).

"Dilution by blurring" is an "association arising from the similarity between a mark or trade name and a famous mark that impairs the distinctiveness of the famous mark." *Id.* § 1125(c)(2)(B). It can occur "regardless of the presence or absence of actual or likely confusion, of competition, or of actual economic injury." *Id.* § 1125(c)(1). "Some classic examples of blurring include 'hypothetical anomalies as

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16 Tiffany's reliance on the "flea market" cases, *Hard Rock Café* and *Fonovisa*, is unavailing. eBay's efforts to combat counterfeiting far exceeded the efforts made by the defendants in those cases. *See Hard Rock Café*, 955 F.2d at 1146 (defendant did not investigate any of the seizures of counterfeit products at its swap meet, even though it knew they had occurred); *Fonovisa*, 76 F.3d at 265 (concluding that plaintiff stated a claim for contributory trademark infringement based on allegation that swap meet "disregard[ed] its vendors' blatant trademark infringements with impunity"). Moreover, neither case concluded that the defendant was willfully blind. The court in *Hard Rock Café* remanded so that the district court could apply the correct definition of "willful blindness," 955 F.2d at 1149, and the court in *Fonovisa* merely sustained the plaintiff's complaint against a motion to dismiss, 76 F.3d at 260-61, 265.

Dupont shoes, Buick aspirin tablets, Schlitz varnish, Kodak pianos, Bulova gowns, and so forth.'" *Starbucks Corp. v. Wolfe's Borough Coffee, Inc.*, 588 F.3d 97, 105 (2d Cir. 2009) (quoting *Mead Data Cent., Inc. v. Toyota Motor Sales, U.S.A., Inc.*, 875 F.2d 1026, 1031 (2d Cir. 1989)). It is not a question of confusion; few consumers would likely confuse the source of a Kodak camera with the source of a "Kodak" piano. Dilution by blurring refers instead to "'the whittling away of [the] established trademark's selling power and value through its unauthorized use by others.'" *Id.* (quoting *Mead Data Cent.*, 875 F.2d at 1031).

Federal law identifies a non-exhaustive list of six factors that courts "may consider" when determining whether a mark is likely to cause dilution by blurring. These are: (1) "[t]he degree of similarity between the mark or trade name and the famous mark";[17] (2) "[t]he degree of inherent or acquired distinctiveness of the famous mark"; (3) "[t]he extent to which the owner of the famous mark is engaging in substantially exclusive use of the mark"; (4) "[t]he degree of recognition of the famous mark"; (5) "[w]hether the user of the mark or trade name intended to create an association with the famous mark"; and (6) "[a]ny actual association between the

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[17] We have recently explained that under the Trademark Dilution Revision Act of 2006 ("TDRA"), Pub. L. No. 109-312, 120 Stat. 1730, 1731 (Oct. 6, 2006), the similarity between the famous mark and the allegedly blurring mark need not be "substantial" in order for the dilution by blurring claim to succeed. *See Starbucks Corp.*, 588 F.3d at 107-09. The district court concluded that the TDRA governs Tiffany's claim. *See Tiffany*, 576 F. Supp. 2d at 522-23. We agree and note that Tiffany does not dispute this conclusion on appeal.

mark or trade name and the famous mark." 15 U.S.C. § 1125(c) (2) (B) (i-vi) .

In contrast to dilution by blurring, "dilution by tarnishment" is an "association arising from the similarity between a mark or trade name and a famous mark that harms the reputation of the famous mark." 15 U.S.C. § 1125(c)(2)(C). This "generally arises when the plaintiff's trademark is linked to products of shoddy quality, or is portrayed in an unwholesome or unsavory context likely to evoke unflattering thoughts about the owner's product." *Deere & Co. v. MTD Prods., Inc.*, 41 F.3d 39, 43 (2d Cir. 1994) .

New York State law also "provide[s] for protection against both dilution by blurring and tarnishment." *Starbucks Corp.*, 588 F.3d at 114; *see* N.Y. Gen. Bus. Law § 360-l. The state law is not identical to the federal one, however. New York "does not[, for example,] require a mark to be 'famous' for protection against dilution to apply." *Starbucks Corp.*, 588 F.3d at 114. Nor are the factors used to determine whether blurring has occurred the same. "Most important to the distinction here, New York law does not permit a dilution claim unless the marks are 'substantially' similar." *Id.*

B. Discussion

The district court rejected Tiffany's dilution by blurring claim on the ground that "eBay never used the TIFFANY Marks in an effort to create an association with its own product, but instead, used the marks directly to advertise and identify the availability of authentic Tiffany merchandise on the eBay website." *Tiffany*, 576 F. Supp. 2d at 524. The court concluded that "just as the dilution by blurring claim fails because eBay has never used the [Tiffany]

Marks to refer to eBay's own product, the dilution by tarnishment claim also fails." *Id.* at 525.

We agree. There is no second mark or product at issue here to blur with or to tarnish "Tiffany."

Tiffany argues that counterfeiting dilutes the value of its product. Perhaps. But insofar as eBay did not itself sell the goods at issue, it did not itself engage in dilution.

Tiffany argued unsuccessfully to the district court that eBay was liable for contributory dilution. *Id.* at 526. Assuming without deciding that such a cause of action exists, the court concluded that the claim would fail for the same reasons Tiffany's contributory trademark infringement claim failed. *Id.* Tiffany does not contest this conclusion on appeal. We therefore do not address it. *See Palmieri v. Allstate Ins. Co.*, 445 F.3d 179 (2d Cir. 2006) (issues not raised on appeal are treated as waived).

IV. False Advertising

Finally, Tiffany claims that eBay engaged in false advertising in violation of federal law.

A. Principles

Section 43(a) of the Lanham Act prohibits any person from, "in commercial advertising or promotion, misrepresent[ing] the nature, characteristics, qualities, or geographic origin of his or her or another person's goods, services, or commercial activities." 15 U.S.C. § 1125(a)(1)(B). A claim of false advertising may be based on at least one of two theories: "that the challenged advertisement is literally false, *i.e.*, false on its face," or "that the advertisement, while not literally false, is nevertheless likely to mislead or confuse consumers." *Time Warner Ca-*

ble, Inc. v. DIRECTV, Inc., 497 F.3d 144, 153 (2d Cir. 2007) .

In either case, the "injuries redressed in false advertising cases are the result of public deception." *Johnson & Johnson * Merck Consumer Pharm. Co. v. Smithkline Beecham Corp.*, 960 F.2d 294, 298 (2d Cir. 1992) ("*Merck*"). And "[u]nder either theory, the plaintiff must also demonstrate that the false or misleading representation involved an inherent or material quality of the product." *Time Warner Cable*, 497 F.3d at 153 n.3.[18]

Where an advertising claim is literally false, "the court may enjoin the use of the claim without reference to the advertisement's impact on the buying public." *McNeil-P.C.C., Inc. v. Bristol-Myers Squibb Co.*, 938 F.2d 1544, 1549 (2d Cir. 1991) (internal quotation marks omitted). To succeed in a likelihood-of-confusion case where the statement at issue is not literally false, however, a plaintiff "must demonstrate, by extrinsic evidence, that the challenged commercials tend to mislead or confuse consumers," and must "demonstrate that a statistically significant part of the commercial audience holds the false belief allegedly communicated by the challenged ad-

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[18] We recently adopted "the 'false by necessary implication' doctrine," under which "a district court evaluating whether an advertisement is literally false 'must analyze the message conveyed in full context.'" *Time Warner Cable*, 497 F.3d at 158; *cf. S.C. Johnson & Son, Inc. v. Clorox Co.*, 241 F.3d 232, 238 (2d Cir. 2001) ("In considering a false-advertising claim, [f]undamental to any task of interpretation is the principle that text must yield to context." (quoting *Avis Rent A Car Sys., Inc. v. Hertz Corp.*, 782 F.2d 381, 385 (2d Cir. 1986) (internal quotation marks omitted)).

vertisement." *Merck*, 960 F.2d at 297, 298; *Time Warner Cable*, 497 F.3d at 153 ("[W]hereas plaintiffs seeking to establish a literal falsehood must generally show the substance of what is conveyed, . . . a district court *must* rely on extrinsic evidence [of consumer deception or confusion] to support a finding of an implicitly false message." (internal quotation marks omitted and emphasis and alterations in original)).

B. Discussion

eBay advertised the sale of Tiffany goods on its website in various ways. Among other things, eBay provided hyperlinks to "Tiffany," "Tiffany & Co. under $150," "Tiffany & Co.," "Tiffany Rings," and "Tiffany & Co. under $50." Pl.'s Exs. 290, 392, 1064, 1065. eBay also purchased advertising space on search engines, in some instances providing a link to eBay's site and exhorting the reader to "Find **tiffany** items at low prices." Pl.'s Ex. 1065 (bold face type in original). Yet the district court found, and eBay does not deny, that "eBay certainly had generalized knowledge that Tiffany products sold on eBay were often counterfeit." *Tiffany*, 576 F. Supp. 2d at 520-21. Tiffany argues that because eBay advertised the sale of Tiffany goods on its website, and because many of those goods were in fact counterfeit, eBay should be liable for false advertising.

The district court rejected this argument. *Id.* at 519- 21. The court first concluded that the advertisements at issue were not literally false "[b]ecause authentic Tiffany merchandise is sold on eBay's website," even if counterfeit Tiffany products are sold there, too. *Id.* at 520.

The court then considered whether the advertisements, though not literally false, were nonethe-

less misleading. It concluded they were not for three reasons. First, the court found that eBay's use of Tiffany's mark in its advertising was "protected, nominative fair use." *Id.* Second, the court found that "Tiffany has not proven that eBay had specific knowledge as to the illicit nature of individual listings," implying that such knowledge would be necessary to sustain a false advertising claim. *Id.* at 521. Finally, the court reasoned that "to the extent that the advertising was false, the falsity was the responsibility of third party sellers, not eBay." *Id.*

We agree with the district court that eBay's advertisements were not literally false inasmuch as genuine Tiffany merchandise was offered for sale through eBay's website. But we are unable to affirm on the record before us the district court's further conclusion that eBay's advertisements were not "likely to mislead or confuse consumers." *Time Warner Cable*, 497 F.3d at 153.

As noted, to evaluate Tiffany's claim that eBay's advertisements misled consumers, a court must determine whether extrinsic evidence indicates that the challenged advertisements were misleading or confusing. The reasons the district court gave for rejecting Tiffany's claim do not seem to reflect this determination, though. The court's first rationale was that eBay's advertisements were nominative fair use of Tiffany's mark.

But, even if that is so, it does not follow that eBay did not use the mark in a misleading advertisement. It may, after all, constitute fair use for Brand X Coffee to use the trademark of its competitor, Brand Y Coffee, in an advertisement stating that "In a blind taste test, 9 out of 10 New Yorkers said they preferred Brand X Coffee to Brand Y Coffee."

But if 9 out of 10 New Yorkers in a statistically significant sample did not say they preferred X to Y, or if they were paid to say that they did, then the advertisement would nonetheless be literally false in the first example, or misleading in the second.

There is a similar difficulty with the district court's reliance on the fact that eBay did not know which particular listings on its website offered counterfeit Tiffany goods. That is relevant, as we have said, to whether eBay committed contributory trademark infringement. But it sheds little light on whether the advertisements were misleading insofar as they implied the genuineness of Tiffany goods on eBay's site.

Finally, the district court reasoned that if eBay's advertisements were misleading, that was only because the sellers of counterfeits made them so by offering inauthentic Tiffany goods. Again, this consideration is relevant to Tiffany's direct infringement claim, but less relevant, if relevant at all, here. It is true that eBay did not itself sell counterfeit Tiffany goods; only the fraudulent vendors did, and that is in part why we conclude that eBay did not infringe Tiffany's mark. But eBay did affirmatively advertise the goods sold through its site as Tiffany merchandise. The law requires us to hold eBay accountable for the words that it chose insofar as they misled or confused consumers.

eBay and its amici warn of the deterrent effect that will grip online advertisers who are unable to confirm the authenticity of all of the goods they advertise for sale. *See, e.g.*, Yahoo! Inc. Amicus Br. 15; Electronic Frontier Foundation et al. Amicus Br. 18-19. We rather doubt that the consequences will be so dire. An online advertiser such as eBay need not

cease its advertisements for a kind of goods only because it knows that not all of those goods are authentic. A disclaimer might suffice. But the law prohibits an advertisement that implies that all of the goods offered on a defendant's website are genuine when in fact, as here, a sizeable proportion of them are not.

Rather than vacate the judgment of the district court as to Tiffany's false advertising claim, we think it prudent to remand the cause so that the district court, with its greater familiarity with the evidence, can reconsider the claim in light of what we have said. The case is therefore remanded pursuant to *United States v. Jacobson*, 15 F.3d 19 (2d Cir. 1994), for further proceedings for the limited purpose of the district court's reexamination of the false advertising claim in accordance with this opinion. We retain jurisdiction so that any of the parties may seek appellate review by notifying the Clerk of the Court within thirty days of entry of the district court's judgment on remand. *See, e.g., Galviz Zapata v. United States*, 431 F.3d 395, 399 (2d Cir. 2005). Such notification will not require the filing of a new notice of appeal. *Id.* If notification occurs, the matter will be referred automatically to this panel for disposition.

If circumstances obviate the need for the case to return to this Court, the parties shall promptly notify the Clerk of the Court. *Id.*

CONCLUSION

For the foregoing reasons, we affirm the judgment of the district court with respect to the claims of trademark infringement and dilution. Employing a *Jacobson* remand, we return the cause to the district court for further proceedings with respect to Tiffany's false advertising claim.

APPENDIX B

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

Nº 04 Civ. 4607 (RJS)

TIFFANY (NJ) INC. AND TIFFANY AND COMPANY,

Plaintiffs,

VERSUS

EBAY, INC.,

Defendant.

OPINION AFTER BENCH TRIAL
July 14, 2008

RICHARD J. SULLIVAN, District Judge:

Tiffany, the famous jeweler with the coveted blue boxes, brings this action against eBay, the prominent online marketplace, for the sale of counterfeit Tiffany silver jewelry on its website. Specifically, Tiffany alleges that hundreds of thousands of counterfeit silver jewelry items were offered for sale on eBay's

website from 2003 to 2006. Tiffany seeks to hold eBay liable for direct and contributory trademark infringement, unfair competition, false advertising, and direct and contributory trademark dilution, on the grounds that eBay facilitated and allowed these counterfeit items to be sold on its website.

Tiffany acknowledges that individual sellers, rather than eBay, are responsible for listing and selling counterfeit Tiffany items. Nevertheless, Tiffany argues that eBay was on notice that a problem existed and accordingly, that eBay had the obligation to investigate and control the illegal activities of these sellers — specifically, by preemptively refusing to post any listing offering five or more Tiffany items and by immediately suspending sellers upon learning of Tiffany's belief that the seller had engaged in potentially infringing activity. In response, eBay contends that it is Tiffany's burden, not eBay's, to monitor the eBay website for counterfeits and to bring counterfeits to eBay's attention. eBay claims that in practice, when potentially infringing listings were reported to eBay, eBay immediately removed the offending listings. It is clear that Tiffany and eBay alike have an interest in eliminating counterfeit Tiffany merchandise from eBay — Tiffany to protect its famous brand name, and eBay to preserve the reputation of its website as a safe place to do business. Accordingly, the heart of this dispute is not whether counterfeit Tiffany jewelry should flourish on eBay, but rather, who should bear the burden of policing Tiffany's valuable trademarks in Internet commerce.

Having held a bench trial in this action, the Court issues the following Findings of Fact and Conclusions of Law, as required by Rule 52(a) of the

Federal Rules of Civil Procedure. Specifically, after carefully considering the evidence introduced at trial, the arguments of counsel, and the law pertaining to this matter, the Court concludes that Tiffany has failed to carry its burden with respect to each claim alleged in the complaint. First, the Court finds that eBay's use of Tiffany's trademarks in its advertising, on its homepage, and in sponsored links purchased through Yahoo! and Google, is a protected, nominative fair use of the marks.

Second, the Court finds that eBay is not liable for contributory trademark infringement. In determining whether eBay is liable, the standard is not whether eBay could reasonably anticipate possible infringement, but rather whether eBay continued to supply its services to sellers when it knew or had reason to know of infringement by those sellers. *See Inwood Labs., Inc. v. Ives Labs., Inc.*, 456 U.S. 844, 854 (1982). Indeed, the Supreme Court has specifically disavowed the reasonable anticipation standard as a "watered down" and incorrect standard. *Id.* at 854 n.13. Here, when Tiffany put eBay on notice of specific items that Tiffany believed to be infringing, eBay immediately removed those listings. eBay refused, however, to monitor its website and preemptively remove listings of Tiffany jewelry before the listings became public. The law does not impose liability for contributory trademark infringement on eBay for its refusal to take such preemptive steps in light of eBay's "reasonable anticipation" or generalized knowledge that counterfeit goods might be sold on its website. Quite simply, the law demands more specific knowledge as to which items are infringing and which seller is listing those items before requiring eBay to take action.

The result of the application of this legal standard is that Tiffany must ultimately bear the burden of protecting its trademark. Policymakers may yet decide that the law as it stands is inadequate to protect rights owners in light of the increasing scope of Internet commerce and the concomitant rise in potential trademark infringement. Nevertheless, under the law as it currently stands, it does not matter whether eBay or Tiffany could more efficiently bear the burden of policing the eBay website for Tiffany counterfeits — an open question left unresolved by this trial. Instead, the issue is whether eBay continued to provide its website to sellers when eBay knew or had reason to know that those sellers were using the website to traffic in counterfeit Tiffany jewelry. The Court finds that when eBay possessed the requisite knowledge, it took appropriate steps to remove listings and suspend service. Under these circumstances, the Court declines to impose liability for contributory trademark infringement.

Third, the Court finds that Tiffany has failed to meet its burden in proving its claims for unfair competition. Fourth, in regard to Tiffany's claim for false advertising, the Court concludes that eBay's use of the Tiffany trademarks in advertising is a protected, nominative fair use of the marks. Finally, the Court finds that Tiffany has failed to prove that eBay's use of the TIFFANY Marks is likely to cause dilution. Even assuming *arguendo* that Tiffany could be said to have made out a claim for trademark dilution, the Court finds that eBay's use of the marks is protected by the statutory defense of nominative fair use.

Accordingly, the Court hereby enters judgment for eBay. The Court's judgment is supported by the following Findings of Fact and Conclusions of Law.

I. PROCEDURAL HISTORY

Plaintiffs Tiffany (NJ) Inc. and Tiffany and Company[1] commenced this action on June 18, 2004.[2] The Amended Complaint, filed on July 15, 2004, alleges that defendant eBay, Inc. ("eBay") is liable, *inter alia*, for direct and contributory infringement of Tiffany's trademarks by virtue of the assistance that it provides to, and the profits it derives from, individuals who sell counterfeit Tiffany goods on eBay. Specifically, Tiffany's Amended Complaint asserts the following six causes of action: (1) direct and contributory trademark infringement of Tiffany's trademarks in violation of Sections 32(1), 15 U.S.C. § 1114(1), and 34(d), 15 U.S.C. § 1116(d), of the Lanham Act; (2) trademark infringement and the use of false descriptions and representations in violation of Sections 43(a)(1)(A) and (B) of the Lanham Act, 15 U.S.C. § 1125(a)(1)(A) and (B); (3) direct and contributory trademark infringement under common law; (4) direct and contributory unfair competition under common law; (5) trademark dilution in violation of Section 43(c) of the Lanham Act, 15 U.S.C. § 1125(c); and (6) trademark dilu-

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[1] The two Tiffany corporate entities are hereinafter collectively referred to as "Tiffany."

[2] The case was originally assigned to the Honorable Naomi Reice Buchwald, District Judge. On November 3, 2005, the case was reassigned to the Honorable Kenneth M. Karas, District Judge. On September 4, 2007, the case was reassigned to my docket.

tion in violation of New York General Business Law § 360-1.

In anticipation of trial, the parties filed a Joint Pretrial Order ("PTO") on October 6, 2006, including those facts to which both parties stipulated. In April 2007, the parties filed Proposed Findings of Fact and Law ("Pr. Findings") as well as Pretrial Memoranda ("Pretrial Mem")[3]

The case proceeded to trial on November 13, 2007. The trial was conducted without objection in accordance with the Court's Individual Rules for the conduct of non-jury proceedings. The parties submitted affidavits containing the direct testimony of their respective witnesses, as well as copies of all the exhibits and deposition testimony that they intended to offer as evidence in chief at trial. eBay chose to cross-examine only four of Tiffany's seventeen witnesses,[4] noting in opening arguments that the facts of the case were not complicated — and indeed, that many were not in dispute. (Trial Transcript ("Tr.") 28:18-29:7.) Tiffany cross-examined all three of

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[3] Defendant eBay also filed two motions *in limine*, seeking to exclude 1) expert witness testimony from George Mantis, and 2) evidence relating to trademarks identified for the first time in Tiffany's Proposed Findings of Fact. The motions were, respectively, denied and granted on November 9, 2007. *See Tiffany (NJ) Inc. v. eBay, Inc.*, 75 Fed. R. Evid. Serv. 109, 109 (S.D.N.Y. 2007) (denying motion); *Tiffany (NJ) Inc. v. eBay, Inc.*, No. 04 Civ. 4607 (RJS), 2007 WL 4104037, at *1 (S.D.N.Y. Nov. 9, 2007) (granting motion).

[4] At the Court's request, a fifth witness for the Plaintiff, Michael Kowalski, Chairman of the Board of Directors and Chief Executive Officer of Tiffany, was cross-examined by the Defendants before the close of the evidence.

eBay's witnesses. Closing arguments took place on November 20, 2007. The parties each submitted a post-trial memorandum ("Post-Trial Mem.") on December 7, 2007.

By letter dated July 3, 2008, Tiffany requested that the Court recognize a decision issued on June 30, 2008, by the Commercial Court of Paris, France, and give preclusive effect to factual determinations made therein. A conference regarding this request was held with the Court on July 8, 2008. Tiffany subsequently withdrew the request by letter dated July 9, 2008.

II. FINDINGS OF FACT[5]

A. The Parties

Plaintiff Tiffany and Company is a New York corporation with its principal place of business in New York, New York. (PTO at 7.) Plaintiff Tiffany (NJ) Inc. is a New Jersey corporation with its principal place of business in Parsippany, New Jersey. *(Id.)* Defendant eBay, Inc. is a Delaware corporation with its principal place of business in San Jose, California. *(Id.)*

B. Tiffany and Its Business

1. Tiffany's Famous Marks

Over its 170-year history, Tiffany has achieved great renown as a purveyor of high-quality and luxury goods under the TIFFANY Marks (defined below), including jewelry, watches, and home items such

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[5] To the extent that any Finding of Fact reflects a legal conclusion, it shall to that extent be deemed a Conclusion of Law, and vice-versa.

as china, crystal, and clocks. (*Id.;* Kowalski Decl. ¶¶ 4, 7.) The TIFFANY Marks are indisputably famous, and are a valuable asset owned by Tiffany. (Naggiar Decl. ¶ 4.) The protection of the quality and integrity of the brand and the trademarks is critical to Tiffany's success as a retailer of luxury goods. (Kowalski Decl. ¶ 4.)

Tiffany is the exclusive licensee and user of the TIFFANY, TIFFANY & CO., and T & CO. trademarks, including those trademarks registered on the Principal Register of the United States Patent and Trademark Office bearing Registration Nos. 23,573, 133,063, 1,228,189, 1,228,409, and 1,669,335 for jewelry, watches and decorative art objects. (PTO at 7.) In addition, Tiffany & Co. is the exclusive licensee and user of trademarks for the design of jewelry, registered on the Principal Register of the United States Patent and Trademark Office bearing Registration Nos. 1,804,353 and 1,785,204. (PTO at 7.) The first of these two marks is registered for a kidney bean-shaped design, to be used for jewelry, namely, earrings, necklaces, bracelets, pendants, cufflinks, and rings. (Am. Compl. ¶ 12.) The second design mark is registered for a cross design, to be used for jewelry, namely, pins, pierced earrings, ear clips, bracelets, necklaces, rings, and brooches. (*Id.*) The foregoing marks are collectively referred to herein as the "TIFFANY Marks." (PTO at 7.)[6]

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[6] The TIFFANY Marks are valid and subsisting. (PTO at 7.) The marks bearing Registration Nos. 1,228,189, 1,228,409, 1,804,353, and 1,785,204 have become incontestable. (*Id.*)

2. Tiffany's Quality Control and Distribution

Because the issues disputed at trial included (1) the effectiveness of Tiffany's authentication and quality control procedures, and (2) the integrity of Tiffany's distribution channels, the Court makes the following factual findings with respect to these issues. The first issue is relevant to which party is best able to identify counterfeit jewelry. The second issue is arguably relevant to the availability of authentic Tiffany merchandise in secondary markets such as eBay.

In order to maintain its reputation for high-quality jewelry, Tiffany quality control personnel inspect Tiffany merchandise before it is released for distribution. (Callan Decl. ¶¶ 5, 8, 10.) Before a silver jewelry item can be released to Tiffany's channels of trade, the item must satisfy Tiffany's exacting standards for, *inter alia,* composition, quality, shape, and polish of the metal, as well as the quality and integrity of the TIFFANY Marks appearing on the item. (*Id.* at ¶¶ 8, 12.) To determine if an item is authentic Tiffany silver jewelry, Tiffany quality inspectors must be able to physically inspect each item.[7] (Tr. 32: 5-6; 64:18-23.) Tiffany closely pro-

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[7] By contrast, in some circumstances, it is *possible* to determine if an item is counterfeit without physically inspecting the item. For example, if one or more of the TIFFANY Marks appeared on a piece of silver jewelry bearing a "double heart" design, someone who is familiar with Tiffany's products could instantly determine that the piece is a counterfeit based on a photograph, because Tiffany does not make that particular "double heart" design. (Zalewska Decl. ¶ 23.) As another example, someone who is familiar with Tiffany's products could see from a photograph that the TIFFANY Marks were in the wrong

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tects its quality standards and does not make them available to the public or to other jewelry manufacturers. (Tr. 35:5-36:4.)

Tiffany closely controls the distribution of Tiffany-branded goods. (Kowalski Decl. ¶ 20; Zalewska Decl. ¶¶ 9-10.) Since 2000, all new Tiffany jewelry sold in the United States has been available only through Tiffany retail stores, Tiffany catalogs, the Tiffany website (www.tiffany.com), and through Tiffany's Corporate Sales Department.[8] (Kowalski Decl. ¶ 8; Cepek Decl. ¶ 10; Shibley Decl. ¶ 3.) Tiffany does not sell or authorize the sale of Tiffany merchandise on eBay or other online marketplaces. More generally, Tiffany does not use liquidators, sell overstock merchandise, or put its goods on sale at discounted prices. (Zalewska Decl. ¶¶ 8, 10.) In addition, Tiffany has a general policy of refusing to sell more than five of the same new items to any individual customer at any given time without the approval of the retail store manager. However, as noted be-

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place on a given piece of jewelry, and thus determine that the product was counterfeit. (Tr. 66:11-25.) Of course, in many instances, determining whether an item is counterfeit will require a physical inspection of the item, and some degree of expertise on the part of the examiner.

[8] Tiffany closed its domestic wholesale division in the fall of 1999, and by mid-2000, all of the United States accounts in that division had been closed. (Cepek Decl. ¶ 10.) There is no evidence of any diversion of silver jewelry from the domestic wholesale accounts. (Cepek Decl. ¶¶ 12-13.) Tiffany defines diversion as "the act of taking legitimate product from authorized sales channels, by legitimate or illegitimate means, and making it available for sale through unauthorized sales channels." (Pl.'s Ex. 3, at 2.)

low, the five-or-more policy has been sporadically applied on a case-by-case basis. (Tr. 134:17- 18.)

There are only two ways in which Tiffany sells significant quantities of merchandise at discounted or wholesale prices. First, the Tiffany Corporate Sales Department sells certain Tiffany items to corporate accounts. (Shibley Decl. ¶ 4.) Second, Tiffany sells merchandise to its international trade accounts at wholesale prices. (Chen Decl. ¶¶ 3, 4.) The evidence does not show, however, that Tiffany's international trade accounts or corporate sales programs are responsible for the diversion of silver jewelry or for counterfeiting of any kind. (Cepek Decl. ¶ 15; Chen Decl. ¶¶ 13-16; Shibley Decl. ¶¶ 7- 9.) Nor is there evidence that during the time at issue, from 2003 to 2006, the prices of Tiffany jewelry pieces sold in various locations have differed such that there would be incentives for purchasers to buy jewelry at a low price in one location and sell it in another country (or on eBay) for higher prices. (Zalewska Decl. ¶ 8; Chen Decl. ¶ 15.)

eBay does not seriously contest the fact that Tiffany's distribution chain is tightly controlled. Nor has eBay presented evidence of diversion of silver jewelry during the relevant time period, 2003 to 2006. Nevertheless, the relative merits of Tiffany's internal diversion controls are of marginal relevance to this litigation, as they provide little insight into the actual size and scope of the legitimate secondary market in authentic Tiffany silver jewelry. Indeed, the trial record contains virtually no testimony, expert or otherwise, on the crucial topic of the size of the legitimate secondary market in Tiffany goods. This deficiency is significant, since the law clearly protects such secondary markets in au-

thentic goods. *See Polymer Tech. Corp. v. Mimran,* 975 F.2d 58, 61-62 (2d Cir. 1992) ("As a general rule, trademark law does not reach the sale of genuine goods bearing a true mark even though the sale is not authorized by the mark owner."). Thus, while rights holders such as Tiffany may have obvious economic incentives to curtail the sale of both counterfeit and authentic goods on the Internet — after all, every sale of Tiffany jewelry on eBay potentially represents a lost sales opportunity via Tiffany's own authorized distribution channels — the law provides protection only from the former, not the latter. Clearly, eBay and other online market websites may properly promote and facilitate the growth of legitimate secondary markets in brand-name goods. *See Dow Jones & Co. v. Int 'l Sec. Exch., Inc.,* 451 F.3d 295, 308 (2d Cir. N.Y. 2006) ("While a trademark conveys an exclusive right to the use of a mark in commerce in the area reserved, that right generally does not prevent one who trades a branded product from accurately describing it by its brand name, so long as the trader does not create confusion by implying an affiliation with the owner of the product."). Unfortunately, the trial record offers little basis from which to discern the actual availability of authentic Tiffany silver jewelry in the secondary market.[9]

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[9] Tiffany's return policy provides that with a receipt, Tiffany merchandise can be returned in saleable condition within thirty days for a full cash refund. Without a receipt or after thirty days, Tiffany jewelry can be returned in saleable condition for a store credit (Zalewska Decl. ¶ 21.) In light of this policy, it would not be difficult to imagine the development of an efficient secondary market involving buyers willing to pay cash for unwanted and otherwise non-returnable retail Tiffany mer-

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C. eBay and Its Business

1. eBay's Listings, Buyers, and Sellers

eBay is a well-known online marketplace, located at www.ebay.com, that allows eBay sellers to sell goods directly to eBay buyers. (PTO at 7.) The listings are created and posted by third-party users, who register with eBay and agree to abide by a User Agreement. (*Id.*) While users often go by descriptive user names instead of their real names, users are required to supply identifying information to eBay when registering. (Briggs Decl. ¶ 13.) Sellers can also use multiple user names. (Tr. 671:18- 672:2.)

To conduct a transaction on eBay, registered sellers choose the appropriate category for their listed item, including, for example, Jewelry and Watches, Toys and Hobbies, Collectibles, or Health and Beauty. (Briggs Decl. ¶ 15.) Sellers then create a listing for the item that they wish to sell. (*Id.* at ¶¶ 10, 12.) A listing can include either a single item or several items (also known as a "Dutch auction"). (*Id.* at ¶ 16; Zalewska Decl. ¶ 27.) In addition, sellers can post multiple listings at any given time, including multiple listings for the same type of item or one listing with multiple quantities of the same item. (Def.'s Ex. 77 at 3; Zalewska Decl. ¶ 80.)

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chandise, which might then be offered for resale in larger quantities via eBay and other distribution channels. However, the scope and extent of such a secondary market was not developed at trial.

While eBay is perhaps best known for auction-style listings, sellers can also choose to sell their goods through fixed price or "Buy It Now" listings.[10] (Briggs Decl. ¶¶ 9, 15.) Sellers are responsible for setting the parameters and conditions of the sale, including the minimum acceptable bid, the Buy It Now price (if applicable), and the duration of the listing. Sellers are also responsible for the content of the listings, including the titles and descriptions of the items. (Def.'s Ex. 77; Briggs Decl. ¶ 12.)

Separately, eBay offers a classified ad service, through which sellers can publish the availability of goods for sale. (Tr. 399:6 - 401:4.) This classified ad service is available only for certain categories and subcategories of goods, and is priced differently than eBay's ordinary listings. Unlike the previously described eBay listings, the classified ad service is a straightforward service analogous to the classified ad section of a local newspaper. (*Id.* at 401:2-4.)

Potential buyers can view listings on eBay in several ways. Buyers can click on keywords on the eBay home page, which bring them to pages of listings for products including those keywords. Buyers can also browse through eBay categories or use keywords to search through listing titles and descriptions. To bid on items, buyers, like sellers, must register with eBay. (Briggs Decl. ¶ 13.)

eBay's role is to connect buyers and sellers and to enable transactions, which are carried out di-

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[10] A "Buy It Now" option is a hybrid between an auction and a fixed price sale. In such a listing, the item sells at a fixed price only if a buyer is willing to meet the Buy It Now price before the first bid comes in.

rectly between eBay members. When a buyer purchases an item, the buyer and seller contact each other to arrange for payment and shipment of the goods. (*Id.* at ¶ 19.) While eBay provides the venue for the sale and support for the transaction, it does not itself sell the items. (*Id.*) Indeed, items sold on eBay are never in eBay's physical possession. (PTO at 7; Chesnut Decl. ¶ 41; Briggs Decl. ¶¶ 10-11.) eBay generally does not know whether or when an item is delivered to the buyer. (Briggs Decl. ¶¶ 10- 11.)

eBay has become very successful: more than six million new listings are posted on eBay daily, and at any given time, some 100 million listings appear on the website. (*Id.* ¶ 9.)

2. eBay's Business Model and Support to Sellers

eBay's business model is based on two components: first, the creation of listings, and second, the successful completion of sales between the seller and the buyer. For each posted listing, sellers pay an initial insertion fee, ranging from $0.20 to $4.80 depending on the starting price. If the item is successfully sold, sellers pay a final value fee based upon the final price for the item. Final value fees range from 5.25% to 10% of the final price of the item. (Briggs Decl. ¶ 20; Pl.'s Ex. 1151.) In addition, sellers who opt for various additional features to differentiate their listings, such as a border or boldfaced type, are charged additional fees. (Briggs Decl. ¶ 20.)

In this way, eBay's revenue is based on sellers using eBay to list their products and successfully completing sales through eBay. Gary Briggs, eBay's Chief Marketing Officer, testified that in 2006, approximately 33% of eBay North America's income

was derived from listing fees and approximately 45% from final value fees. (Tr. 407:3-407:9.) eBay also profits from fees charged by PayPal, an eBay company, to process the transaction. (*Id.* at 393:4-393:16.) PayPal charges the eBay seller a fee ranging from 1.9% to 2.9% of the sale price, plus $0.30. (Pl.'s Ex. 1156.)

Because eBay's revenue and profit growth is dependent, in significant part, on the completion of sales between eBay sellers and eBay buyers, eBay works closely with sellers to foster the increase of their sales on eBay, including the sales of Tiffany jewelry. (Zeig Dep. Tr. 141:21-145:4; Tr. 406:18-407:25; Pl.'s Exs. 124, 129.) As Briggs testified, eBay "want[s] to have [its] sellers understand what buyers are interested in, and [it] feels that [it is] very much in the business of trying to help [its] sellers succeed." (Tr. 406:23- 407:2.)

This assistance includes seminars and workshops to educate sellers on growing their business. (*Id.* at 403:11-403:14; Pl.'s Exs. 981, 989.) eBay also offers marketing advice about creating the "perfect" listing to attract buyers (Tr. 415:20-417:1; Pl.'s Ex. 1015), and offers an "Advanced Selling" program that provides its sellers with data and research to help them identify "hot sales opportunities" (Tr. 406:4-406:16; Pl.'s Ex. 987). In addition, eBay distributes marketing calendars so that its sellers can list goods to coincide with eBay promotions (Tr. 409:2-409:19; Pl.'s Ex. 985), as well as "expert" consultants, whom eBay sellers may call to receive advice on growing their business (Tr. 409:25-411:4; Pl.'s Ex. 990). eBay also has a "Main Street Program," which encourages sellers to lobby government officials regarding regulations

and legislation that may affect their sales and eBay's business. (Tr. 413:7-413:22; Pl.'s Ex. 1024.)

Some users who regularly sell large quantities of merchandise through eBay are designated as "PowerSellers." eBay provides PowerSellers with more assistance and benefits. (Tr. 401:10-401:23.) As Briggs testified, the bigger the seller, the more support eBay provides. (*Id.*) During the relevant time period, eBay provided PowerSellers with dedicated account managers; special newsletters with further information on eBay promotions; advanced selling education; reimbursements of 25% of the cost of qualifying advertisements; and access to health care benefits, business liability insurance, and working lines of credit to finance their business. (*Id.* at 423:6-423:12, 423:17-424:4, 427:7-427:14, 438:19-439:20, 440:3-440:20; Pl.'s Exs. 52, 62, 129, 397, 406.)

3. eBay's Control Over Sales Made On Its Website

eBay is an electronic marketplace, not a retailer. Thus, eBay itself never takes physical possession of the goods sold through its website; instead, it facilitates a transaction between two independent parties. (Chesnut Decl. ¶ 41; Briggs Decl. ¶¶ 10-11.) Nevertheless, eBay exercises some limited control over those who trade on its website by requiring all users to register with eBay and sign eBay's User Agreement. (Briggs Decl. ¶ 13; Def.'s Ex. 77.) The User Agreement requires users to refrain from violating any laws, third party rights, including intellectual property rights, and eBay policies. If a user violates the terms or conditions of the User Agreement, eBay may take disciplinary action against the seller, including removing the seller's

listings, issuing a warning, and/or suspending the user. (Briggs Decl. ¶ 14.)

In addition to exercising some control over users, eBay also restricts the types of items which can be listed on its website. For example, eBay maintains a list of prohibited items, *e.g.*, drugs, firearms, and alcohol, for which it routinely screens in order to prevent such items from being offered for sale on eBay. (Pl.'s Ex. 4.)

4. eBay's Anti-Fraud Efforts

a. Trust and Safety Department

eBay has made substantial investments in anti-counterfeiting initiatives. (Tr. 686:14-15, 687:5-8.) eBay has invested as much as $20 million each year on tools to promote trust and safety on its website. (*Id.* at 687:21-25.) One quarter of eBay's workforce of roughly 16,000 employees is devoted to trust and safety. (*Id.* at 691:18-692:7.) Of these 4,000 individuals, approximately 2,000 serve as eBay Customer Service Representatives "(CSRs"). (Chesnut Decl. ¶ 20.) More than 200 of these individuals focus exclusively on combating infringement, at a significant cost to eBay. (Tr. at 597:24-580:8, 687:9-14.) eBay also employs 70 persons who work exclusively with law enforcement. (*Id.* at 599:1-2, 746:21-747:19; Chesnut Decl. ¶¶ 56- 57.) In several instances, information that eBay has provided to law enforcement agencies has led to the arrest of counterfeiters. (Chesnut Decl. ¶¶56-57.)[11]

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[11] Congress has criminalized trafficking in counterfeit goods. *See* 18 U.S.C. § 2320. However, according to the Clerk of this Court, from 2003 to the present date, the United States Attorney's Office for the Southern District

[Footnote continued on next page]

b. Fraud Engine

Between December 2000 and May 2002, eBay manually searched for keywords in listings in an effort to identify blatant instances of potentially infringing or otherwise problematic activity. (*Id.* at ¶ 34.) In May 2002, eBay began using technology to perform that function. (*Id.*) These technological tools are known as the eBay fraud engine. (*Id.*) The fraud engine uses rules and complex models that automatically search for activity that violates eBay policies. (*Id.*) eBay spends over $5 million per year in maintaining and enhancing its fraud engine, which is principally dedicated to ferreting out illegal listings, including counterfeit listings. (Tr. 687:15-18.)

The fraud engine currently uses more than 13,000 different search rules, and was designed in part to capture listings that contain indicia of counterfeiting apparent on the face of the listings without requiring expertise in rights owners' brands or products. (Chesnut Decl. ¶ 35.) The fraud

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of New York has prosecuted only 24 cases under this statute. Moreover, the United States Attorney's Office for the Southern District of New York has apparently adopted a policy of declining prosecutions against "mere sellers" of counterfeit goods. *See, e.g., United States v. Huang,* No. 06 Crim. 1006 (RJS), Transcript of May 20, 2008 Conference at 17-21. This suggests that law enforcement efforts have been relatively modest in addressing what has been characterized as a multi-hundred-billion dollar problem. *See* Matthew Benjamin, *A World of Fakes,* U.S. News and World Report, July 14, 2003, at 46-47 (annual cost of counterfeit goods to the U.S. economy estimated at $200-250 billion).

engine thus was developed to monitor the website and flag or remove listings that, among other things, explicitly offered counterfeit items, contained blatant disclaimers of genuineness, or included statements that the seller could not guarantee the authenticity of the items. For example, at all times relevant to this litigation, eBay monitored its website for and removed listings that expressly offered "knock-off," "counterfeit," "replica," or "pirated" merchandise, and listings in which the seller stated he "cannot guarantee the authenticity" of the items being offered. (*Id.*; Tr. 581:11-584:22; Def.'s Exs. 125, 135.) For obvious reasons, the fraud engine could not determine whether a listed item was actually counterfeit. (Chesnut Decl. ¶ 35.) However, the fraud engine also contained numerous other data elements designed to evaluate listings based on, for example, the seller's Internet protocol address, any issues associated with the seller's account on eBay, and the feedback the seller has received from other eBay users. (*Id.* at ¶ 36.) Between 2003 and the close of discovery in 2006, eBay modified and updated its fraud engine at least weekly. (*Id.*)

At all times relevant to this case, eBay's fraud engine flagged thousands of listings on a daily basis that contained obvious indicia of infringing or otherwise fraudulent activity. (*Id.* at ¶ 38.) Listings flagged by the fraud engine were sent to eBay's CSRs for review and possible further action. (*Id.*) In reviewing the flagged listings, CSRs examined multiple factors according to eBay guidelines in order to make a decision as to whether a violation of eBay policies had occurred, including the language and sophistication of the listing, the seller's history and feedback rating from past buyers, the

seller's business model, and the seller's eBay registration information. (*Id.*)

Upon reviewing a potentially infringing, fraudulent, or problematic listing, the CSR would: (1) remove the listing from eBay; (2) send a warning to the seller; (3) place restrictions on the seller's account, such as a selling restriction, temporary suspension, or indefinite suspension; and/or (4) refer the matter to law enforcement. (*Id.* at ¶ 39.) eBay removed thousands of listings per month based on CSR reviews of listings captured by the fraud engine. (Chesnut Decl. ¶¶ 38-39; Def.'s Ex. 13.) At all times relevant to this litigation, CSRs' decisions were guided by standards and guidelines put in place by eBay lawyers and staff members, and the action taken was based upon the seriousness of the violation. (*Id.*) Nevertheless, eBay's ultimate ability to make determinations as to infringement was limited by virtue of the fact that eBay never saw or inspected the merchandise in the listings. While some items — such as guns — were completely prohibited and thus required no judgment to remove, listings that offered potentially infringing and/or counterfeit items required a more in-depth review. (Tr. 582:23-584:17.)

c. The VeRO Program

In addition to the fraud engine, eBay has, for nearly a decade, maintained a set of procedures, known as the Verified Rights Owner ("VeRO") Program, to address listings offering potentially infringing items posted on the eBay website. (Chesnut Decl. ¶ 15.) At all times relevant to this litigation, the VeRO Program was a "notice-and-takedown" system, whereby rights owners could report to eBay any listing offering potentially infringing

items, so that eBay could remove such reported listings. (*Id.* at ¶ 16.) At the present time, more than 14,000 rights owners, including Tiffany, participate in the VeRO Program. (*Id.* at ¶ 17.)

At all times, eBay's VeRO Program rested on the responsibility of rights owners to police their own trademarks. Under the VeRO Program, a rights owner who saw a potentially infringing item listed on eBay could report the listing directly to eBay, by submitting a Notice of Claimed Infringement form or "NOCI". (*Id.* at ¶ 18; *see* Def.'s Exs. 29, 84.) A NOCI attested that the rights owner possessed a "good-faith belief" that the item infringed on a copyright or a trademark. (Chesnut Decl. ¶ 16.) NOCIs could be faxed to eBay, emailed to eBay, or reported to eBay via a software tool called the VeRO Reporting Tool. (Def.'s Ex. 94; Pl.'s Ex. 154; Chesnut Decl. ¶ 18.) As part of the VeRO Program, eBay offered rights owners tools to assist in efficiently identifying potentially infringing listings. These included the VeRO Reporting Tool as well as an automated search tool called "My Favorite Searches." (Chesnut Decl. ¶ 23.) These tools allowed rights owners to search automatically for particular listings every day, to save their favorite searches, and to email the search results directly to the rights owner for review on a daily basis. (*Id.*)

Upon receipt of such a notice, CSRs first verified that the NOCI contained all of the required information and had indicia of accuracy. (*Id.*) Thereafter, eBay promptly removed the challenged listing. Indeed, at all times relevant to this litigation, the Court finds that eBay's practice was to remove reported listings within 24 hours of receiving a NOCI. (Tr. 712:20-21; Chesnut Decl. ¶ 21; Def.'s Ex. 26.)

Seventy to 80 percent of reported listings were removed within 12 hours of notification during the time period at issue in this litigation. (Tr. 713:1-3.) At present, three quarters of the listings are removed within four hours. (*Id.* at 712: 15-16.) eBay typically removed thousands of listings per week based on the submission of NOCIs by rights holders. (Chesnut Decl. ¶ 21.)

The Court finds that when eBay removed a listing, if bidding on the listed item had not ended, eBay notified the seller and any bidders that the listing had been removed and that all bids had been cancelled. eBay also advised the seller as to the reason for the removal and provided relevant educational information to prevent the seller from later committing the same violation. (Tr. 697:20-699:5; Def.'s Ex. 55.) If bidding had ended, eBay cancelled the transaction retroactively, removed the listing, and informed both the winning bidder and the seller that the listing had been removed and that the parties should not complete the transaction. (Tr. 703:17-704:5.) Every time eBay removed a listing, eBay refunded associated fees, including listing fees, feature fees, and final value fees. (*Id.* at 699:4-14, 703:17-704:5; Chesnut Decl. ¶ 22.) Under some circumstances, eBay also reimbursed the buyer for the cost of the purchased item under eBay's or PayPal's buyer protection programs. (Chesnut Decl. ¶ 59.) One of these conditions was that the buyer present evidence that the item was, in fact, counterfeit. (Pl.'s Ex. 1146.) eBay committed "tens of millions of dollars" annually to pay claims through its buyer protection program, "and a number of counterfeit claims [were] paid every year that certainly contribute[d] to a significant part of that expense." (Tr. 688:1-5.) The Court further finds that eBay also

reviewed the seller's account and routinely took further remedial action, including suspending the seller. (*Id.* at 699:22-700:9.)

d. "About Me" Page

As an additional educational tool, eBay encouraged rights owners to create an "About Me" webpage on the eBay website to inform eBay users about their products, intellectual property rights, and legal positions. (*Id.* at ¶ 44.) Sellers who had listings removed from eBay were directed to the relevant rights owner's "About Me" webpage for information about why their listings were removed and how they could avoid posting listings for infringing items in the future. (*Id.*) Aside from monitoring for some limited content, such as profanity, eBay did not exercise any control over the content on a rights owner's "About Me" page. (*Id.*) Tiffany maintained an "About Me" page on eBay beginning in 2004. (*Id.*) Tiffany's "About Me" Page stated that "Most of the purported 'TIFFANY & CO.' silver jewelry and packaging available on eBay is counterfeit." (Pl.'s Ex. 290.) The "About Me" page explained that genuine Tiffany merchandise is available only through stores, catalogs, and Tiffany's own website, and that the manufacture and sale of counterfeit Tiffany goods on eBay is a crime. (*Id.*) The page concluded by stating that "TIFFANY & CO. RIGOROUSLY PROTECTS ITS TRADEMARKS AND COPYRIGHTS." (*Id.*)

D. The Sale of Tiffany Goods on eBay

1. eBay's Brand Management and Attempts to Develop Jewelry Sales

At all times pertinent to this litigation, eBay management teams were responsible for overseeing

the growth of products sold on eBay within each formal product category, such as Jewelry & Watches. (Tr. 417:9-420:19; Poletti Dep. Tr. 13:14-13:22.) The Jewelry & Watches team ran an account management program for its twenty top sellers. (Zeig Dep. Tr. 31:13-35:16, 35:5-37:8; Tr. 417:9-419:23.) That program provided eBay's sellers with information on business planning and auction strategy consultation. (Zeig Dep. Tr. 31:13-35:16; Pl.'s Ex. 200 at 16.) In addition, eBay conducted group conference calls with sellers, in which eBay shared information on such topics as eBay's marketing programs and top-searched keywords. (Pl.'s Exs. 184, 200 at 7; Zeig Dep. Tr. 117:18-118:11.) Plaintiff's Exhibit 184, a draft of an email to eBay sellers, shows that eBay provided its sellers with "the most effective keywords for [their] program," and highlighted the words that provided the best return on investments. eBay identified "Tiffany" as one of the top-searched keywords and provided it to top sellers during these calls. (Pl.'s Ex. 184.)

In order to "boost" the sellers' sales, eBay also advised its sellers to take advantage of the demand for Tiffany merchandise as part of a broader effort to grow the Jewelry & Watches category. (Pl.'s Exs. 129, 184, 995, 1018, 1026, 1038, 1064; Tr. 457:20-460:3.) In many cases, eBay's advice was simply based on the keywords that were frequently used in searching eBay's website. For instance, in 2004, a PowerSeller newsletter to jewelry sellers advised PowerSellers to "us[e] recommended keywords to boost sales." (Pl.'s Ex. 129.) "Tiffany & Co." was among the recommended keywords provided because it had "been used often" in recent eBay searches. (*Id.*) eBay encouraged its sellers to view the eBay Pulse webpage, which tracked buyer trends,

"hot picks," "top searches," and "most watched items." (Pl.'s Ex. 1026; Tr. 461:4-464:19.) In September 2006, eBay told users that the terms "Tiffany" and "Tiffany & Co." were top search terms. (Pl.'s Exs. 1038, 1164.) eBay also reported demand for Tiffany items through documents such as the "Hot Categories Report," which summarized keywords for which there was significant buyer demand. (Pl.'s Ex. 995.)

eBay actively took steps to grow the sales of Tiffany items on its website. For example, eBay provided its users with a document called the "Holiday Hot List." (Pl.'s Ex. 1018.) As eBay acknowledged, the Holiday Hot List "suggested to our sellers the types of items that our buyers will have interest in during the holiday season." (Tr. 457:20-459:3.) The Holiday Hot List distributed in the "Seller Central" section of eBay's website in September 2006 stated: "to help [sellers] prepare, we have created a detailed list of products predicted to be in high demand and short supply this holiday season." (Pl.'s Ex. 1026.) eBay included "Tiffany" on the Holiday Hot List. (Pl.'s Ex. 1018.)

eBay recognized that its "buyers are very interested in brands." (Tr. 446:21-446:25.) In order to attract potential buyers to its website, eBay devoted a significant effort to assisting the growth of eBay sellers in the Jewelry & Watches category. (*Id.* at 418:11-419:23; Poletti Dep. Tr. 13:6-13:22.) Indeed, eBay considered itself to be a competitor of Tiffany and the principal source of "value" pricing of Tiffany jewelry. (Poletti Dep. Tr. 72:19- 79:22, 74:16-75:13.) eBay regularly conducted promotions to increase bidding on auctions and to increase sales of fashionable and luxury brands, including Tiffany.

(Zeig Dep. Tr. 49:15-50:15, 64:5-67:6; Pl.'s Ex. 61; Pl.'s Ex. 63.)

2. eBay Advertised Tiffany Goods

Prior to 2003, eBay actively advertised the availability of Tiffany merchandise on its website. (Pl.'s Exs. 392, 1064.) Additionally, as with many other brand names, eBay purchased sponsored link advertisements on Yahoo! and Google advertising the availability of Tiffany items on eBay. (Briggs Decl. ¶ 25; Pl.'s Exs. 491, 1065.) After Tiffany complained to eBay in May 2003, *see infra* at Section II.E.2, eBay advised Tiffany that it had ceased purchasing those links. (Briggs Decl. ¶¶ 25, 32.) Nevertheless, eBay continued to use a third party, Commission Junction, to run what was known as the "affiliate program." Through that program, sellers who registered as "affiliates" contracted with Commission Junction and then bought sponsored links on Google. (Tr. 469:1-470:20.) In some instances, affiliates were then reimbursed for some of their costs, depending on how much business they drove to the eBay website. (*Id.*) eBay provided a lump sum to Commission Junction, which then disbursed the payments to individual affiliates. (*Id.*) Although eBay never directed its affiliates to continue purchasing Tiffany sponsored links, it did not instruct Commission Junction to preclude its affiliates from using Tiffany as a sponsored link. (Tr. 472:2-472:19.) However, the technology available at the time did not allow either Commission Junction or eBay to suppress individual terms, like Tiffany, as a general rule. Rather, if eBay had sought to suppress the term "Tiffany," eBay would have needed to do so "pretty much on a manual basis." (*Id.* at 473:14.) Based on the evidence at trial, the Court finds that

eBay did not fully discontinue the practice of advertising Tiffany goods on eBay through sponsored links.

3. eBay Generated Revenue From The Sale of Tiffany Items

During the relevant time period, eBay generated substantial revenue from the sale of "Tiffany" silver jewelry on its website. (Poletti Dep. Tr. 59:15-62:9.) Indeed, between April 2000 and August 2005, there were 456,551 sales of Tiffany jewelry in the Jewelry & Watches category.[12] (Pl.'s Ex. 394 at 1.) eBay's Jewelry & Watches category manager estimated that, between April 2000 and June 2004, eBay earned $4.1 million in revenue from completed listings with "Tiffany" in the listing title in the Jewelry & Watches category. (Poletti Dep. Tr. 59:15-62:9.)

E. Tiffany Identified eBay as a Major Source of Counterfeit Items

1. Tiffany Attempted to Stop Counterfeiting

In policing its valuable marks, Tiffany brought individual lawsuits against counterfeiters, including counterfeiters selling their items on eBay.[13] (Tr. 838:25-840:4; Kowalski Decl. ¶¶ 15-16.) In addi-

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[12] This figure consists of completed sales for the following subcategories: Body Jewelry, Bracelets, Charms & Charm Bracelets, Children's Jewelry, Designer Brands, Earrings, Men's Jewelry, Necklace & Pendants, Pins & Brooches, and Rings. (Pl.'s Ex. 394.) The calculations exclude numerous types of Tiffany items not at issue in this litigation.

[13] These individual eBay sellers included Katz Jewelers, Inc., Starglam.com, Inc., Erika Hughes, and David Verbout. (Tr. 838:25-840:4; Kowalski Decl. ¶¶ 15-16.)

tion, Tiffany's CEO testified that Tiffany also pursued over 600 "enforcement actions," including customs seizures, working with domestic and international law enforcement agencies, and contacting individual eBay sellers and demanding that they cease and desist from selling counterfeit Tiffany items. (Tr. 801:2-801:21, 805:9-14.) Nevertheless, by 2003, Tiffany apparently determined that it would forego future legal action against individual sellers of counterfeit Tiffany merchandise on eBay (*id.* at 800:20-805:6), and, instead, address the problem with eBay directly. (*Id.* at 804:11-805:6, 816:23-817:17; Kowalski Decl. ¶22-23.)[14]

2. Tiffany Sought Action from eBay

On May 14, 2003, Tiffany's outside counsel wrote to eBay to complain about the problem of counterfeit Tiffany jewelry on eBay, specifically noting the "deluge of counterfeit Tiffany merchandise, the vast majority of which has been sold through eBay." (Kowalski Decl. ¶ 17; Pl.'s Ex. 489.) In that letter, Tiffany advised eBay that there were no authorized third party vendors for Tiffany merchandise and that it should therefore "be apparent to eBay that any seller of a significant lot — i.e. five pieces or more — of purported 'Tiffany' jewelry is almost certainly

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[14] Although eBay has criticized Tiffany's commitment to policing its trademarks, eBay does not argue, nor could it, that Tiffany has legally abandoned the TIFFANY Marks at issue here. *See ITC Ltd. v. Punchgini, Inc.*, 482 F.3d 135, 147 (2d Cir. 2007) ("The party asserting abandonment bears the burden of persuasion with respect to two facts: (1) non-use of the mark by the legal owner, and (2) lack of intent by that owner to resume use of the mark in the reasonably foreseeable future.")

selling counterfeit merchandise." (Kowalski Decl. ¶¶ 17-18; Pl.'s Ex. 489.) In that May 14, 2003 letter, Tiffany made three specific demands: "that eBay immediately (i) remove listings for all Tiffany counterfeit merchandise currently on the eBay website; (ii) take appropriate and continuing measures to eliminate the sale of counterfeit merchandise through the eBay website in the future; and [(iii)] cease using any 'Tiffany' identifier to label counterfeit goods." (Pl.'s Ex. 489.)

By a telephone conversation later confirmed in letters of June 12, 2003 (Pl.'s Ex. 490), and June 13, 2003 (Pl.'s Ex. 491), eBay responded by encouraging Tiffany to utilize the VeRO Program, as well as a third party program, Ranger Online, to expedite Tiffany's reporting of suspicious merchandise.[15] (Pl.'s Ex. 490, 491.) eBay also indicated to Tiffany that eBay monitored listings on its website and removed those that appeared, on their face, to be counterfeit. (Pl.'s Ex. 491.) Furthermore, eBay stated that if a seller had been previously warned about infringing listings, the seller's account would be suspended. (*Id.*) eBay also asked Tiffany to propose ways in which the two businesses could work together to help Tiffany protect its mark. (*Id.*) Finally, eBay noted that it would remove the sponsored link advertising for Tiffany items. (*Id.*)

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[15] According to Ewa Zalewska, an attorney in Tiffany's legal department and a witness at trial, while Tiffany did subsequently try using Ranger Online to facilitate reporting of counterfeit items through eBay's VERO Program, Tiffany eventually stopped using the program because Tiffany felt that it was ineffective. (Tr. 227:14-228:2; Pl.'s Ex. 816.)

However, eBay rejected Tiffany's request that eBay "remove listings that [did] not appear on their face to be offering counterfeit Tiffany items without notice from [Tiffany] that they [were] infringing." (*Id.*) In particular, eBay refused to prospectively ban listings in which the seller had listed multiple "Tiffany" items. (*Id.*; Tr. 233:15-22.) In eBay's June 13, 2003 letter to Tiffany, eBay wrote, "What you have asked us to do is to consider listings 'apparently infringing' simply because the seller is offering multiple Tiffany items. That we are not prepared to do at this time." (Pl.'s Ex. 491.)

Almost one year later, on June 10, 2004, Tiffany once again wrote to eBay. (Pl.'s Ex. 492.) In that letter, Tiffany said that it had used the Ranger Online and VeRO Programs to report counterfeit goods. (*Id.*) Tiffany also stated that as a result of Tiffany's own survey (the "Buying Programs"), Tiffany had discovered that 73% of the sterling silver Tiffany merchandise on eBay was counterfeit, and that only 5% was genuine. (*Id.*) Tiffany concluded by demanding that eBay should "(i) ban any eBay seller from listing five (5) or more 'Tiffany' jewelry items at any given time; (ii) ban the sale of silver 'Tiffany' jewelry, the vast majority of which our analysis has shown to be counterfeit; (iii) ban the sale of any 'Tiffany' item that is advertised as being counterfeit (as some currently are) or as being 'inspired by Tiffany" (as is often the case now); (iv) not advertise the sale of 'Tiffany' merchandise and (v) remove sponsored links to 'Tiffany' on any search engine." (*Id.*) This litigation ensued.

At trial, Tiffany's CEO, Michael Kowalski, conceded that in "virtually all cases or certainly the majority of cases eBay would take down the listings

for any auctions that were identified by Tiffany as suspect." (Tr. 814:18-22.) Kowalski also conceded that eBay had removed Tiffany advertising from its home pages and greeting pages, as well as its advertising on Google and Yahoo!. (*Id.* at 815:5-12.) He finally testified that the principal issue that Tiffany had with eBay was that eBay would not *prospectively* ban sellers of multiple Tiffany items, particularly when those items were sold in lots of five or more. (*Id.* at 815:13-817:11.) Kowalski stated that the crux of Tiffany's argument was that there must be a way "to stop the counterfeiting before the fact, not after the fact." (*Id.* at 817:9-10.)

F. Tiffany's Proposed "Five-or-More" Rule

Tiffany's principal unmet demand was for eBay to prospectively ban sellers of multiple Tiffany items by instituting a "five-or-more" rule. The Court finds that, as a factual matter, there is little support for Tiffany's allegation that a seller listing five or more pieces of Tiffany jewelry is presumptively trafficking in counterfeit goods. First, the precise contours of the "five-or-more" rule have shifted throughout litigation. For example, in Tiffany's pre-litigation demand letters, Tiffany asserted that all Tiffany items sold in lots of five or more are presumptively counterfeit. (Kowalski Decl. ¶¶ 18, 20.) At trial, the testimony was that, in reviewing infringing listings, Tiffany was concerned only with lots of five *identical* silver jewelry items. (Tr. 121:11-33.) At other times, Tiffany has suggested that the rule should be applied to *all* manner of Tiffany jewelry, new and old (Am. Compl. ¶ 34), while on other occasions Tiffany has asserted that the "five-or-more" rule should extend only to new silver Tiffany items. (Def.'s Ex. 284; Kowalski ¶ 20.)

Second, Tiffany's CEO, Michael Kowalski, testified that the "five-or-more" rule "was simply our compromised effort" to make eBay "do a better job of preventing the sale of Tiffany counterfeit merchandise through eBay." (Tr. 822:14-17.) The five-or-more rule "wasn't meant to exclusively specify the means" of enforcement, and was simply a "shorthand solution . . . that we felt was eminently reasonable from a business model consumer behavior perspective." (*Id.* at 822:17-23.)

Third, Tiffany's contention that the "five-or-more" rule is warranted in light of Tiffany's sales practices is unsupported by the record. In fact, the record shows that a practice of limiting retail sales of identical items in lots of five or more was instituted by Tiffany for a time, not as an anti-counterfeiting tool, but instead, as an anti-diversion tool — that is, to guard against the growth of a secondary market in authentic Tiffany goods. (*See, e.g.*, Def.'s Exs. 169, 197; McGowan Dep. Tr. at 76:2-77:25.) The record further shows that since 2005, the retail sales limit has grown to 25 items per customer (Tr. 833:8-12; McGowan Dep. Tr. at 76:20-77:2) — and that even that limit is not regularly enforced. (Tr. 134:7-14 (Tiffany witness testified that "the five or more policy . . . is not applied consistently); *id.* at 833:3-12.) In addition, lots of more than five Tiffany silver jewelry items are available from Tiffany through its Corporate Sales Department and international trade accounts. (*See generally* Shibley Decl.; Chen Decl.)

Finally, the record shows that lots of five or more *authentic* Tiffany items, including silver jewelry, have been sold on eBay. (*See, e.g.*, Def.'s Ex. 422; Tr. 135:16-21.)

G. Tiffany Participated in the VeRO Program

1. Tiffany Filed Increasing Numbers of NOCIs

The Court finds that Tiffany attempted to curtail the sale of counterfeit Tiffany items on eBay by participating in eBay's VeRO Program. (Zalewska Decl. ¶ 22.) Tiffany employees monitored eBay and submitted NOCIs to eBay for those listings that they had a good faith belief infringed on the TIFFANY Marks. (*Id.* at ¶ 35; Pl.'s Ex. 968.) Tiffany also requested that eBay provide Tiffany with contact information for the seller and that eBay suspend the seller for selling infringing items. (Cacucciolo Decl. ¶ 9.)

From the time of eBay's June 2003 letter through May 2004, Tiffany reported 46,252 listings for which Tiffany claimed a good-faith belief that the items being sold were counterfeit.[16] (Pl.'s Ex. 1082.) In August 2003, Tiffany was the second-highest reporter of NOCIs in the VeRO Program. (Def.'s Ex. 81; Pl.'s Ex. 92.) In each year from 2003 through 2006, Tiffany reported substantially more listings than it did the year prior. (Pl.'s Ex. 1082.) Specifically, Tiffany reported 20,915 listings in 2003 (*id.*); 45,242 listings in 2004 (*id.*); 59,012 listings in 2005 (*id.*); and 134,779 listings in 2006 (*id.*; Tr. 97:20-99:18). As of September 30, 2007, shortly before trial, Tiffany had reported 24,201 listings for 2007. (Zalewska Decl. ¶ 79.) All told, Tiffany reported 284,149 listings through the VeRO Program. (*Id.* at ¶

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16 These figures represent only listings; a single listing may have offered multiple Tiffany items, indicating that the number of potentially infringing items was likely higher than 46,252. (Zalewska Decl. ¶¶ 74, 80; *see* Def.'s Ex. 77 at 3.)

80; Tr. 195:1-195:8.) According to eBay's monthly records, of the 14,000 rights owners who participate in the VeRO Program, (Chesnut Decl. ¶ 17), Tiffany was among the top ten reporters in 21 of the 28 months between June 2003 and September 2005. (Pl.'s Ex. 253-283.) Thus, by any measure, it is clear that Tiffany was one of the most frequent reporters in the VeRO Program.

2. Tiffany's Staffing

Notwithstanding the significance of the online counterfeiting problem, it is clear that Tiffany invested relatively modest resources to combat the problem. In fiscal year 2003, Tiffany budgeted approximately $763,000 to the issue, representing less than 0.05 percent of its net sales for that year. (Def.'s Ex. 200; Tr. 94:11-14.) Tiffany's CEO, Michael Kowalski, testified that over the past five years, Tiffany has budgeted $14 million to anti-counterfeiting efforts — of which approximately $3-5 million was spent in litigating the instant action. (Tr. 825:121-826:21.)

More specifically, Tiffany's time dedicated to monitoring the eBay website and preparing NOCIs was limited. Beginning in the summer of 2003, Ewa Zalewska, then a paralegal in Tiffany's legal department, devoted two days a week to reviewing the eBay website and answering emails from buyers and sellers involving removed listings. (*Id.* at 76:7-77:4.) John Pollard, then Tiffany's security manager, also devoted one day a week to monitoring and reporting on the eBay website. (*Id.* at 78:7-10.) Between 2004 and 2006, anywhere from 172 to 240 man-hours per month were devoted to monitoring and reporting on the eBay website, principally from paralegals, interns, Zalewska, Pollard, and a

temporary employee. (Zalewska Decl. ¶ 67.) Translating these hours into a full-time equivalent employee, these hours reflected the equivalent of anywhere between 1.15 to 1.6 full-time employees per month dedicated to monitoring the eBay website. (Tr. 83:21-84:10.) In 2006, while the total number of hours dedicated to monitoring eBay did not change, Tiffany dedicated one full-time employee to patrolling eBay and reporting NOCIs through the VeRO Program. (*Id.* at 84:18-25; 188:1-3.) Moreover, in 2006, for the first time, Tiffany began to patrol eBay and report violations on a daily basis. (*Id.* at 188:1-3.)

While eBay suggested that Tiffany use technological tools, like Ranger Online, to facilitate reporting, Tiffany eventually rejected this technology. (*Id.* at 230:8-23; *see supra* at n.15.) Nor did Tiffany attempt to develop its own technology to expedite the process of monitoring and reporting on eBay. (*Id.* at 229:6-230:2.)

Given the limited technology and staff Tiffany chose to employ to pursue reporting through VeRO, the sheer volume of Tiffany items available on eBay made it difficult for Tiffany to comprehensively review all of the Tiffany listings on eBay. (*Id.* at 203:21- 205:8.) On any given day, from early 2003 through 2006, a search for "Tiffany" and "silver" could return more than 1,000 results. (Zalewska Decl. ¶ 83.) With the limited resources that Tiffany was willing to devote to eBay review, Tiffany simply could not review every Tiffany listing. (Zalewska Decl. ¶ 83; Tr. 203:21-205:8.) In addition, when reviewing items on eBay, Tiffany's reviewers did not have the opportunity to see listings any earlier than a member of the general public. Accord-

ingly, potentially counterfeit merchandise could be listed and sold before Tiffany had even had the opportunity to review the listing. (Cacucciolo Decl. ¶ 47; Pl.'s Exs. 1075, 1077, 1078.) This was particularly true for listings over the weekends, when Tiffany's paralegals were not reviewing the website. (Zalewska Decl. ¶ 84.) It was also true for listings that had a "Buy It Now" option, which allowed a purchaser to bypass the auction process. (*Id.*; Cacucciolo Decl. ¶ 47; Pl.'s Exs. 1075, 1077, 1078.)

Thus, the record reflects that Tiffany could have invested additional resources in monitoring the eBay website and reporting NOCIs through the VeRO Program. Had Tiffany done so, Tiffany could have captured more of the infringing listings on eBay. (*Id.* at 624:24-626:20, 719:25-721:7; Chesnut Decl. ¶ 25.)

H. Evidence of Counterfeit Jewelry on eBay

It is clear that Tiffany was actively engaged in the filing of NOCIs to remove listings from eBay. However, a NOCI attests only to Tiffany's "good faith belief" that the listing infringes on Tiffany's trademark. A NOCI, alone, is not evidence that the listing itself was infringing. For that evidence, we turn elsewhere in the record.

1. The Buying Programs

In an effort to show that counterfeit jewelry was in fact being sold on eBay, Tiffany conducted a survey in 2004 to assess how many of the items offered under the Tiffany mark were, in fact, counterfeit. This pre-litigation survey and a second survey conducted in 2005, after litigation commenced, are collectively known as the Buying Programs.

To design and implement the Buying Programs, Tiffany hired an independent survey expert, George Mantis. As per Mantis' recommendations, paralegals employed by Tiffany's outside counsel searched for jewelry on the eBay website using, *inter alia,* the keywords "Tiffany" and "sterling." (Mantis Decl. ¶ 8.) Using a random number generator, Tiffany then purchased a representative sample of the results of that search. During the 2004 Buying Program, Tiffany purchased 186 pieces of "Tiffany" silver jewelry. (Grasso Decl. ¶¶ 3, 33.) Tiffany's quality management personnel inspected and evaluated each of these items. (Callan Decl ¶¶ 14, 17, 31.) They found that 136 items, or 73.1%, were counterfeit, and only 5% were genuine. (Grasso Decl. ¶; Mantis Decl. ¶ 20; Pl.'s Ex. 434.) They deemed the remaining 21.9% as potentially actionable, but did not determine that they were counterfeit. (Mantis Decl. ¶ 20; Pl.'s Ex. 434.) Tiffany reported these findings to eBay in its letter of June 10, 2004. (Pl.'s Ex. 492.)

In the spring of 2005, after this action was commenced, Tiffany repeated its survey, in order to determine whether the number of counterfeit items being listed on eBay continued to be predominantly counterfeit. (Grasso Decl. ¶¶ 35-36; Zalewska Decl. ¶ 66.) The results of the 2005 Buying Program were generally similar to the 2004 Buying Program. Tiffany determined that 75.5% of the 139 items purchased were counterfeit. (Mantis Decl. ¶ 20; Pl.'s Ex. 433.)

The Court finds that the Mantis surveys are of very limited probative value. First, the Court finds that the original design of the Buying Programs

was flawed. Mantis conceded at trial that his original survey specification suffered from an inherent flaw, namely, that it would be impossible for all items to have a known, non-zero chance for selection, and thus that the sample was not a probability sample. (*Id.* at 300:10-14.) Because the Buying Programs were not probability samples, it is not possible to generalize or make any greater inference about the general population of the sampling study's universe from the data yielded in the Buying Programs. (Ericksen Decl. ¶ 68.) Moreover, without a probability sample, it is impossible to calculate a confidence interval in the data. (Tr. 553:16-554:10.)

Second, there were several errors in the implementation of the programs. Mantis did not himself conduct the Buying Programs; instead, Tiffany's counsel and quality assurance personnel conducted the program and authenticated the items. (Mantis Decl. ¶ 20.) Those who did implement the programs deviated in significant respects from Mantis's protocol. Indeed, at trial Mantis admitted that (1) the recommended sample size was not achieved (Tr. 297:8-25); (2) not all items selected through the program were actually purchased (*id.* at 297:19-25); (3) the 2004 program included the week before Valentine's Day, even though the protocol stated that the program should not take place during holiday periods (*id.* at 303:10-304:3); and (4) frequent mistakes were made in the steps that should have been followed in deciding which items to purchase (*id.* at 302:19-303:3).

Third, the universe of goods that were sampled through the Buying Programs were not representative of the universe of Tiffany silver jewelry at issue in this litigation. The search criteria used to identify

those items that were then purchased through the program were not search criteria designed to identify the universe of Tiffany jewelry available on eBay. Instead, they were the same search terms that Tiffany used in its regular efforts to identify and report counterfeit items. (Tr. 282:20-24, 283:18-24, 284:6-12; Ericksen Decl. ¶¶ 33-35.) Additionally, in these search terms, Tiffany searched for "sterling" Tiffany, rather than the "silver" Tiffany that is at issue in this litigation.

Fourth, Tiffany suspended its routine VeRO reporting efforts when the Buying Programs were in effect. (Tr. 291:12-21; Ericksen Decl. ¶¶ 45-57.)

For these reasons, the Court finds that the Buying Programs provide limited evidence as to the total percentage of counterfeit goods available on eBay at any given time. (Tr. 289:19-291:2; Ericksen Decl. ¶ 57.) The Court's conclusion is consistent with Tiffany's concession that the results of the Buying Programs were not intended to be extrapolated to any day outside the specific dates of the programs. (Pl.'s Motion *In Limine* Opp. at 4; Tr. 278:19-25; 279:14-18.)

In addition, the Court finds that the Buying Programs provide no probative evidence on Tiffany's proposed five-or-more rule, because the search criteria for the Buying Programs did not include any parameter looking for "five or more" listings. (Tr. 282:13-17; Mantis Decl. ¶ 18.)

Nevertheless, notwithstanding these methodological flaws, even eBay's expert, Dr. Eugene Ericksen, conceded that a substantial amount of the "Tiffany" jewelry listed on eBay's website — 30% or more — could safely be deemed to be counterfeit. (Tr. 555:5-12.) Accordingly, despite the methodological limita-

tions of Mantis' survey, the Court finds that a significant portion of the "Tiffany" sterling silver jewelry listed on the eBay website during the Buying Programs was counterfeit.[17]

2. Buyers Complained to eBay

At the same time that Tiffany was complaining to eBay about the sale of counterfeit goods, buyers were also complaining to eBay. (Pl.'s Ex. 493-645.) For example, during the last six weeks of 2004, 125 consumers complained to eBay about purchasing "Tiffany" items through the eBay website that they believed to be counterfeit. (*See* Pl.'s Ex. 493-645.)

At trial, three consumers submitted affidavits attesting that they purchased counterfeit goods on eBay from sellers who marketed those goods as new and genuine. (Badart Decl. ¶¶ 3-12; Byron Decl. ¶¶ 7-16; Lahood Decl. ¶¶ 4-8, 14.) These consumers all complained to eBay and/or PayPal. For instance, in November 2005, Elizabeth Badart purchased what she believed to be a genuine Tiffany bracelet and earrings set from an eBay seller. (Badart Decl. ¶ 7.) Once she received them, it was clear to her that the "Tiffany" items were fake. (*Id.* at ¶ 11.) Badart complained to PayPal on November 8, 2005. After repeated communications with PayPal for the next month, PayPal sent Badart a refund. (*Id.* at ¶¶ 14-20.)

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[17] Of course, these figures offer no guidance as to what percentage of counterfeit listings would have been captured, and removed, via diligent use of the VeRO Program, which, as noted, was suspended by Tiffany during each of the Buying Programs.

When Tiffany became aware of these three individuals, Tiffany offered to authenticate the items they had purchased. All three were subsequently determined to be counterfeit. (*Id.* at ¶¶ 11-12; Byron Decl. ¶ 20; Lahood Decl. ¶ 14.)

3. Buyers Complained to Tiffany

Tiffany also received complaints about counterfeit Tiffany items sold on eBay. Between April 2003 and October 2007, Tiffany's Customer Service Department received over 3,900 emails complaining about counterfeit "Tiffany" items on eBay. (Lange Decl. ¶ 1.) The majority of the emails included questions about whether the product was fake, and whether Tiffany was aware of the problem. (*Id.* at ¶¶ 1, 3.) Some customers faulted Tiffany for failing to police the eBay website for counterfeit merchandise. (*Id.* at ¶ 3; Pl.'s Exs. 888, 901.) Four of these complaints concerned sellers whom Tiffany had previously reported to eBay by filing a NOCI. (*Compare* Pl.'s Exs. 497, 511, 572, and 625 *with* Pl.'s Ex. 1067 at 3-4, 8, 14.)

In addition, some buyers went to Tiffany seeking a letter or statement confirming that the item was a counterfeit. (Pl.'s Exs. 844, 847, 848, 859.) Such proof was required by eBay in order for the buyer to qualify for the buyer protection program. (Pl.'s Ex. 1146.) However, Tiffany does not authenticate jewelry unless items were purchased from Tiffany directly. (Lange Decl. ¶ 9.)

4. Authentic Tiffany Jewelry Is Sold on eBay

While the Court concludes that counterfeit Tiffany jewelry was listed and sold on eBay, it is also clear that genuine Tiffany silver jewelry was also sold on eBay. Even with their methodological flaws,

the Mantis Buying Programs found that approximately one quarter of the items were either authentic or could not be determined to be counterfeit. This conclusion is all the more striking because, as discussed *supra,* the search parameters for the Buying Programs were designed to seek out *counterfeit* jewelry. In addition, genuine silver jewelry was, on occasion, sold in lots of 5 or more items. (*See, e.g.*, Def.'s Ex. 422 (showing that eBay user "30plus20" sold dozens of authentic silver jewelry items on eBay.)) Finally, Tiffany has occasionally reported items in NOCIs, only to be proved wrong and have eBay reinstate the listings. (*See, e.g.*, Def.'s Exs. 34, 270.)

I. eBay's Response to Tiffany's NOCIs

1. eBay Removed Listings

As noted in Section II.C.4.c, once Tiffany notified eBay through a NOCI of a listing it believed to contain infringing merchandise, eBay removed that listing from its website through its VeRO Program, advised the sellers and the bidders that the listing had been removed, provided the reason for the removal as well as educational material to the seller, and refunded all fees associated with the transaction. (Zalewska Decl. ¶ 43.) Indeed, Tiffany's own witnesses stated — and the evidence at trial demonstrated — that eBay never refused to remove a reported Tiffany listing,[18] acted in good faith in re-

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[18] When asked, "[H]ow many times has eBay ever, to use your word, refused to take down a listing as requested by Tiffany, ever in your experience?", Zalewska responded, "In my experience, none." (Tr. 112:2-5.) Kowalski likewise testified that in virtually all cases eBay

[Footnote continued on next page]

sponding to Tiffany's NOCIs,[19] and always provided Tiffany with the seller's contact information.[20] (Tr. 112:2-7, 146:10-14, 266:2-267:2, 814:18-22.)[21]

Tiffany has publicly stated that the VeRO Program has been successful. In a 2004 article written by John Pollard and David McGowan, then vice president of worldwide security services for Tiffany and Co., the authors stated that by using the VeRO Program, Tiffany was successfully able to reduce the number of potentially counterfeit Tiffany items on eBay. (Def.'s Ex. 196.)

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took down the listings for any auctions that were identified by Tiffany as potentially infringing. (*Id.* at 814:18-22.)

[19] When later asked if she ever doubted eBay's good faith, Zalewska stated, "No." (*Id.* at 113:2-3.)

[20] Zalewska testified that eBay cooperated in providing seller information, and never failed to fully and completely provide, to the extent eBay was able, seller contact information. (Tr. 266:2-267:2.)

[21] Tiffany's sole documentary evidence in support of the allegation that eBay refused to remove listings after NOCIs were filed took the form of fifteen requests to eBay, all dated just two weeks before the parties' joint pretrial order was due. (Pl.'s Ex. 1120-34.) However, in all fifteen instances, the offending listings were actually taken down either before or within a day of eBay's receipt of the original notice of infringement, before a follow-up request was sent. (Tr. 726:10-727:6, 727:14-728:10.) Moreover, on examination, it is clear that none of the follow-up requests actually claimed that the listing had not in fact been removed. Instead, the follow-up emails requested contact information for the seller. (*See, e.g.*, Pl.'s Ex. 1120 at 2, 4.)

Moreover, in pre-litigation communications with eBay buyers and sellers, Tiffany praised eBay for its willingness to remove listings at Tiffany's request. (Def.'s Ex. 185 ("We have worked with e-Bay for quite some time. They allow us to determine whether an auction infringes on our trademark. They will not allow an item to be re-listed if we say not to.").)

Finally, of all the conditions set forth in Tiffany's June 2004 demand letter, eBay acquiesced to all but two — namely, Tiffany's request that eBay ban all listings containing five or more items as presumptively infringing, and Tiffany's demand that eBay prohibit the sale of Tiffany silver altogether. (Pl.'s Exs. 489, 491). Accordingly, despite Tiffany's unsupported assertion that eBay failed to remove listings after a NOCI was filed, the Court finds that eBay always removed listings promptly upon the receipt of a NOCI.

2. eBay Suspended Sellers

When Tiffany filed a NOCI, Tiffany often requested that eBay suspend the seller. Indeed, by 2005, Tiffany's NOCIs routinely included a request that eBay suspend the seller.[22] (Cacucciolo

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22 Although Tiffany routinely sought and received contact information for sellers of listings that were the subject of NOCIs, it is undisputed that Tiffany brought no actions for direct infringement against any of these sellers after Tiffany's May 2003 demand letter. This is true even with respect to the repeat offenders that Tiffany identified and the sellers of counterfeit items identified by the Buying Programs. Although Tiffany is not "required to constantly monitor every nook and cranny of the entire nation and to fire both barrels of [its] shotgun instantly upon spotting a possible infringer," *Cullman Ventures, Inc. v. Columbian Art works, Inc.*, 717 F. Supp. 96, 126-27

[Footnote continued on next page]

Decl. ¶¶ 9, 24, 25, 48.) The Court finds that eBay declined to automatically or permanently suspend a seller after the filing of a first, or even a second, NOCI. However, for the following reasons, the Court finds that eBay took appropriate steps to warn and then to suspend sellers when eBay learned of potential trademark infringement under that seller's account.

eBay suspended "hundreds of thousands of sellers every year," tens of thousands of whom were suspended for having engaged in infringing conduct. (Tr. 707:8-708:23; Chesnut Decl. ¶ 51; Def.'s Exs. 27, 100, 134.) Although eBay primarily employed a "three-strikes rule" for suspensions, a seller could be suspended on a first violation if it were determined that, for example, the seller "listed a number of infringing items," and "this appears to be the only thing they've come to eBay to do." (Tr. 700:10-22, 589:25-291:6; Chesnut Decl. ¶¶ 48-49.) In other circumstances, if a seller listed a potentially infringing item but appeared overall to be a legitimate seller, the "infringing items [were] taken down, and the seller [would] be sent a warning on the first

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(S.D.N.Y. 1989), it seems likely that aggressive pursuit of direct infringement actions against the sellers of counterfeit goods might have had a significant deterrent effect on potential future infringers on eBay and other websites. Moreover, while "[l]awyers and lawsuits come high and a financial decision must be made in every case as to whether the gain of prosecution is worth the candle," *id.*, the record at trial reflects that Tiffany gave scant consideration to contingent or other fee arrangements that might have enabled Tiffany to retain counsel to pursue infringement activity against sellers with minimal upfront cost. (Tr. 802:5-806:13.)

offense and given the educational information, [and] told that . . . if they do this again, they will be suspended from eBay." (Tr. 700:23-701:10.)

The Court finds that eBay's refusal to use a hard-and-fast, one-strike rule was appropriate for several reasons. First, although a NOCI represented a good-faith belief that a listing was infringing, a NOCI did not constitute a definitive finding that the listed item was counterfeit. (*Id.* at 704:23-705:2.) Indeed, on occasion, Tiffany acknowledged that items that had been the subject of a NOCI were in fact genuine and subsequently requested that items be reinstated. (*See* Def.'s Exs. 34, 270, 422.) In light of eBay's User Agreement, which prohibited sellers from selling infringing items, as well as eBay's policy of cancelling the listing, warning the seller and buyer of the possible infringement, and referring the seller to Tiffany's "About Me" page, it was not unreasonable for eBay to conclude that sellers should not be automatically suspended upon the filing of a single NOCI.

Second, as noted by Chesnut, a suspension was a very serious matter, particularly to those sellers who relied on eBay for their livelihoods. (Tr. 705:3-6.) The Court credits eBay's concern that an automatic suspension was inappropriate for those sellers who might have been innocent infringers, might have believed that the merchandise posted on their listings was authentic, or might have believed that posting counterfeit Tiffany items was not illegal. (*Id.* at 704:18-705:16; *see also id.* at 705:17- 706:9; Chesnut Decl. ¶¶ 47, 50-51; Def.'s Exs. 15, 27, 100.)

The evidence at trial demonstrates that, despite the fact that eBay did not immediately suspend sell-

ers upon the receipt of a NOCI, eBay's policy was appropriate and effective in preventing sellers from returning to eBay and re-listing potentially counterfeit merchandise. Out of the 284,149 listings reported since 2003, Tiffany offered proof of only twenty-three instances in which a seller previously reported through VeRO reappeared on eBay under the same user name.[23] One of these sellers was a PowerSeller.[24] On other occasions, eBay sellers who

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[23] At trial, Tiffany specifically identified three sellers who reappeared under the same user name: "annag9," "tracycwazy," and "Freshhunter." With respect to these sellers, the evidence demonstrates that once a Tiffany representative saw the infringing listings and filed a NOCI, eBay immediately removed the listings. (Zalewska Decl. ¶¶ 89-93; Tr. 149:25-150:3.) When the seller subsequently reappeared on eBay and a Tiffany representative filed a second NOCI, eBay again immediately removed the listings. (*Id.*) The evidence does not demonstrate that a third NOCI was ever filed with respect to these users, nor does it demonstrate that eBay ever refused to remove the allegedly infringing listings. The evidence with respect to the remaining "repeat offenders" is less detailed. For example, at least one of the exhibits cited in support of this contention was not a request that listings be taken down, but rather a request that eBay send Tiffany the seller's contact information. (*See* Pl.'s Ex. 805.) With respect to the remaining sellers, Tiffany offered no evidence of the first NOCI filing and little to no proof of the amount of time that had elapsed between Tiffany's first and second notifications to eBay. (*See, e.g.*, Pl.'s Exs. 813, 811.)

[24] The evidence shows that one of the sellers who relisted items under the same user name was "the firstman_vip." (Pl.'s Ex. 1077; Cacucciolo Decl. ¶ 41; Tr. 509:18-512:5.) This user was a PowerSeller. However, the evidence does not show that this PowerSeller, or any other PowerSeller, was treated differ-

[Footnote continued on next page]

had previously been reported through a NOCI reappeared on the website using a different user name. Tiffany purports to have identified 178 individuals who used a variety of different user names to return to eBay to sell allegedly counterfeit goods. Plaintiff's Exhibit 1067 is a summary chart which identifies these individuals and provides the assorted user names that were used as well as the dates on which Tiffany filed a NOCI regarding the sellers' infringing listings.[25] (Zalewska Decl. ¶ 97.) Using different user names, seventeen of the sellers appear on the chart five or more times, reflecting that despite Tiffany's NOCIs, these seventeen sellers were able to return to eBay to list potentially counterfeit goods. (Pl.'s Ex. 1067.) However, no further testimony or evidence concerning these sellers was introduced at trial. Nevertheless, the vast majority of the sellers on the chart appear no more than twice, indicating that after Tiffany filed two NOCIs reporting these sellers, the sellers no longer reappeared on eBay. (*Id.*) More importantly, with respect to both

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[Footnote continued from previous page]
ently by eBay than any other seller of infringing items. Indeed, there is no evidence that upon the receipt of a NOCI concerning this PowerSeller, eBay failed to immediately remove the listings.

[25] With respect to some of the entries, the probative value of the chart is limited because it is not possible to discern how long it took eBay to respond to the listings and over what period the sellers were selling potentially infringing listings. Seventeen of the entries also appear to count a seller as having "reappeared" even though the seller's second set of potentially infringing listings were reported on the same date as the first. (*Id.*; Tr. 161:6-9.) Moreover, twenty of the entries fail to indicate the date on which Tiffany reported the seller. (*Id.*)

of these groups of sellers — who together comprise a small percentage of the 284,149 listings that were reported by Tiffany — eBay never refused to take down the listings upon the receipt of a NOCI. (Tr. 112:2-7, 146:10-14, 814:18-22.)

Finally, the Court notes that Tiffany did not present evidence or argue that any of the counterfeit items purchased in the Buying Programs — in short, the items in the record that are demonstrably counterfeit, as opposed to being merely suspicious — were sold by sellers who had previously been the subject of a NOCI filed by Tiffany. The Court observes that "annag9," a repeat seller, did sell an item that was purchased through the Buying Programs and was determined to be counterfeit. However, that purchase was made on April 6, 2005, well before Tiffany filed a NOCI against any listings placed by "annag9." The evidence does not demonstrate that Tiffany ever forwarded the identities of these known counterfeiters to eBay prior to the commencement of litigation.

In short, the Court finds that while eBay did not immediately suspend sellers upon the filing of a NOCI, the evidence does not show that alleged counterfeiters could return with impunity to sell counterfeit Tiffany products on eBay. Nor does the evidence establish that eBay encouraged sellers whose listings were previously removed following the filing of a NOCI to simply re-list their previously removed items, or to return to eBay to list other counterfeit items. Accordingly, the Court concludes that Tiffany has failed to prove that eBay continued to supply its service to sellers whom eBay knew to be selling actual counterfeits.

3. eBay Took Additional Steps to Stop the Sale of Counterfeit Tiffany Goods

Finally, eBay took additional steps to respond to the allegations of counterfeit Tiffany items on its website. First, subject to some constraints, beginning in 2003 or early 2004, eBay used special warning messages when a seller attempted to list a Tiffany item. (Chesnut Decl. ¶¶ 54-55; Tr. 750:16-752:21.) These warning messages instructed the seller to make sure that the item was authentic Tiffany merchandise and informed the seller that eBay "does not tolerate the listing of replica, counterfeit, or otherwise unauthorized items" and that violation of this policy "could result in suspension of [the seller's] account." (Def.'s Ex. 136.) The warning message also provided a link to the Tiffany "About Me" Page. If the seller continued to list an item despite the warning, the listing was flagged for review. (Chesnut Decl. ¶ 55.)

Second, eBay periodically conducted reviews of listings in an effort to remove those that might be selling counterfeit goods, including Tiffany goods. (Tr. 597:20-25.) Specifically, because Tiffany had reported many potentially infringing listings, eBay conducted a "clean-up" effort of the Tiffany listings. (*Id.* at 745:9-20.) As part of this effort, members of eBay's infringement group focused on Tiffany listings and, using their best judgment, searched the website manually to find counterfeit listings. (*Id.* at 744:11-24.) As a result of these "clean-up" efforts, numerous listings were removed and a number of sellers were suspended. (*Id.* at 597:20-25, 744:11-24; *see also* Def.'s Exs. 81, 93.)

Third, eBay implemented Tiffany-specific filters in its fraud engine. (Tr. 664:2-22; Def.'s Ex. 125.) eBay employed numerous rules specifically pertain-

ing to Tiffany and more than 50 other key brand names. (Chesnut Decl. ¶ 37.) At the time that Tiffany filed the present litigation, eBay's rules searched for approximately 90 different keywords regarding Tiffany merchandise offered for sale by third parties on eBay. (*Id.*) For example, the system searched for terms in listings such as "counterfeit tiffany," "faux tiffany," "tiffany style," and "inspired by tiffany." (*Id.*)

J. Use of Technology to Further Prevent Listings of Counterfeit Tiffany Merchandise

Tiffany's expert witness, Dr. Gregory Piatetsky-Shapiro — an expert in the field of data mining — testified that eBay could have done more, at an earlier time, to screen out potentially counterfeit Tiffany merchandise from its website. (Piatetsky-Shapiro Decl. ¶ 7.) Specifically, he testified that, using data mining techniques commonly used by corporations, eBay could have designed programs that identified listings of Tiffany items likely to be counterfeit, and that identified the sellers thereof, using an algorithm to produce a "suspiciousness" score. (Piatetsky-Shapiro Decl. ¶¶ 14, 26-29; Tr. 357:3-357:15.) He testified that eBay could more effectively have managed counterfeit goods on its website by addressing sellers, rather than listings (Tr. 357:3-357:15).

Nevertheless, Dr. Piatetsky-Shapiro conceded that his work was based on a snapshot of the eBay system and did not reflect the extent to which eBay could implement these measures on a real-time basis, taking into account the millions of eBay listings and the needs of other rights holders. (*Id.* at 349:20-1.) Dr. Piatetsky-Shapiro also conceded that implementing system-wide changes on a real-time

basis would place a greater strain on eBay's hardware resources (*id.* at 350:16-19), and that he did not know the impact on eBay's systems that would result from implementing the measures he proposed, (*id.* at 351:6-352:4.)

To the extent that Dr. Piatetsky-Shapiro testified that eBay should use an algorithm to identify suspicious sellers on eBay, Dr. Piatetsky-Shapiro conceded that his methodology would not be able to actually identify counterfeit Tiffany items on eBay. (*Id.* at 322:16-21, 323:20-21, 330:15-20, 326:6-19, 328:18, 376:11.) His methodology simply used criteria to search for sellers he deemed to be suspicious – the definition of "suspicious" being largely subjective and circular, based, at least in part, on the criteria previously used by Tiffany, including the fact that the seller listed five or more Tiffany items. (*Id.* at 333:16-25.) He further admitted that his methodology might easily be circumvented over time because counterfeiters typically adapt to evade such anti-counterfeiting measures. Finally, Dr. Piatetsky-Shapiro conceded that Tiffany itself had the ability to use his algorithm just as well as eBay, and that Tiffany never sought to use the algorithm to identify potential counterfeit goods which it could then report to eBay through the VeRO Program. (*Id.* at 352:19-353:1, 366:12-16, 367:9-19, 366:3-9.)

In any event, by late 2006, eBay adopted several new measures to prevent fraud. First, eBay began to delay the ability of buyers to view listings that used certain brand names, including Tiffany, for 6 to 12 hours in order to enable CSRs to manually review those listings. (*Id.* at 655:23-656:14.) Second, eBay developed the capacity to automatically

assess the number of items offered in a given listing. Finally, eBay began to prohibit one-day and three-day auctions of certain brand name items, and restricted cross-border trading — particularly important, given the quantity of counterfeit merchandise that appeared to come from outside the United States. (Pl.'s Ex. 1218.)

Nevertheless, the evidence introduced at trial demonstrated that while eBay had the capacity as early as 2004 to implement some of these measures in isolation — including the ability to delay listings for Tiffany silver jewelry in order to give eBay's customer service representatives time to review and screen them (Tr. 665:4-665:11), and to implement quantity filters that flagged listings offering multiple items of Tiffany silver jewelry (*id.* at 659:10-659:13) -- eBay could not feasibly have implemented all of these measures collectively at an earlier time. Specifically, the evidence does not demonstrate that eBay could have implemented these measures in combination with other initiatives such that the overall set of anti-fraud efforts would work successfully. (*Id.* at 657:16-17 (eBay lacked the capability to impose quantity limits on listings of Tiffany items); *id.* at 665:12-666:12 (until recently, when a listing was flagged, the system could not generate the data to allow customer service representatives to review the seller's other listings); *id.* at 738:24-740:20 (each measure needed to be implemented in conjunction with other measures in order to be effective); *id.* at 662:24-663:11 (would not have been possible for more preemptive measures to be implemented for all rights owners).)

Accordingly, the Court concludes that Tiffany failed to prove that eBay acted unreasonably by not

implementing anti-fraud measures before 2006. To the contrary, the record is clear that eBay consistently took steps to improve its technology and develop anti-fraud measures as such measures became technologically feasible and reasonably available.

III. CONCLUSIONS OF LAW

Tiffany has alleged multiple causes of action in this lawsuit, including (1) direct trademark infringement under federal and common law; (2) contributory trademark infringement under federal and common law; (3) unfair competition under federal and common law; (4) false advertising under section 43(a)(1)(B) of the Lanham Act; (5) trademark dilution under federal and New York law; and (6) contributory dilution. The Court will briefly summarize its jurisdiction over this matter and identify the burden of proof for each cause of action. The Court will then discuss each cause of action in turn.

A. Jurisdiction

The Court has jurisdiction over this action pursuant to 28 U.S.C. §§ 1331 and 1338, as well as 15 U.S.C. § 1121(a). The Court has supplemental jurisdiction over the state law claims pursuant to 28 U.S.C. § 1367(a). Venue in the Southern District is proper under 28 U.S.C. § 1391.

B. Burden of Proof

The party making the allegations of infringement — here, Tiffany — has the burden of proof to present evidence in support of the allegations set forth in its complaint and to prove those allegations by a preponderance of the evidence. *See Merit Diamond Corp. v. Suberi Bros., Inc.*, No. 94 Civ. 4572 (SHS), 1996 WL 11192, at *2 (S.D.N.Y. Jan. 11, 1996) (holding that trademark infringement must be demonstrated "by a

preponderance of the credible evidence"); *McGraw-Hill, Inc. v. Comstock Partners, Inc.*, 743 F. Supp. 1029, 1036 (S.D.N.Y. 1990) (plaintiff must establish "by a preponderance of the evidence that its trademark has been infringed by any of the defendants"); *see also Savin Corp. v. Savin Group*, 391 F.3d 439, 449 (2d Cir. 2004) ("plaintiff must show a preponderance of the evidence on each element of a claimed violation" of federal dilution act). "'The burden of showing something by a preponderance of evidence . . . simply requires the trier of fact to believe that the existence of a fact is more probable than its nonexistence before [he] may find in favor of the party who has the burden to persuade the [judge] of the fact's existence.'" *Metro. Stevedore Co. v. Rambo*, 521 U.S. 121, 137 n.9 (1997) (quoting *Concrete Pipe & Prod. of Cal., Inc. v. Constr. Laborers Pension Trust for S. Cal.*, 508 U.S. 602, 622 (1993)).

C. Direct Trademark Infringement under Federal and Common Law

Tiffany sues defendants for direct trademark infringement in violation of Section 32(1) of the Lanham Act, 15 U.S.C. § 1114(1);[26] Section

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[26] The statute provides, in pertinent part, that:

> Any person who shall, without the consent of the registrant — (a) use in commerce any reproduction, counterfeit, copy, or colorable imitation of a registered mark in connection with the sale, offering for sale, distribution, or advertising of any goods or services on or in connection with which such use is likely to cause confusion, or to cause mistake, or to deceive; . . . shall be liable in a civil action by the registrant for the remedies hereinafter provided.

15 U.S.C. § 1114(1)(a).

34(d) of the Lanham Act, 15 U.S.C. § 1116(d); and New York state common law. Under Section 32(1) of the Lanham Act, "the owner of a mark registered with the Patent and Trademark Office can bring a civil action against a person alleged to have used the mark without the owner's consent." *ITC Ltd. v. Punchgini, Inc.*, 482 F.3d 135, 146 (2d Cir. 2007). Under Section 34(d), a court may grant an order authorizing the seizure of goods and counterfeit marks involved in such violation. *See* 15 U.S.C. § 1116(d)(1)(A). Finally, "under New York state law, a mark owner may maintain a statutory or common law action against a party who engages in unauthorized use of the mark." *ITC Ltd.*, 482 F.3d at 146; *see also* N.Y. Gen. Bus. Law § 360-k (McKinney 2006) (protecting registered marks). The elements required to prevail on trademark infringement and unfair competition claims under New York common law mirror the Lanham Act claims for trademark infringement and unfair competition. *See Standard & Poor's Corp. v. Commodity Exch., Inc.*, 683 F.2d 704, 708 (2d Cir. 1982); *TCPIP Holding Co. v. Haar Comm'cns., Inc.*, No. 99 Civ. 1825 (RCC), 2004 WL 1620950, at *6 n.5 (S.D.N.Y. July 19, 2004); *Twentieth Century Fox Film Corp. v. Marvel Enter., Inc.*, 220 F. Supp. 2d 289, 297-98 (S.D.N.Y. 2002). Accordingly, the Court will address Tiffany's state and federal claims for direct trademark infringement together.

Tiffany argues that eBay has directly infringed its trademark in three ways. First, Tiffany contends that eBay has directly infringed its trademarks by advertising the availability of Tiffany jewelry on eBay, by using the Tiffany name on the eBay home page and in eBay documents and publications, and by subsequently deriving revenue from the sale of that

jewelry on its website. Specifically, Tiffany submits that eBay (1) has advertised the sale of Tiffany jewelry on its home page; (2) has advertised to its sellers and buyers alike that "Tiffany" and "Tiffany & Co." are two of the top search terms in the Jewelry and Watch category; (3) has provided lists of popular brand names, including "Tiffany," on its website that, when clicked on, bring a user directly to the listings offering Tiffany merchandise; and (4) has provided potential buyers with links to other listings posted by that seller, including links for a seller's offering of "Tiffany" merchandise. (*See* Pl.'s Pretrial Mem. at 26-27.) Tiffany contends that eBay profits from this activity by taking a listing fee and a percentage of the sales price of each item of Tiffany jewelry sold on its venue. (*Id.*)

Second, Tiffany submits that eBay has purchased "sponsored links" on Google and Yahoo! advertising eBay listings that offer Tiffany jewelry for sale. (*Id.*) Like Tiffany's claims against eBay for using the Tiffany name on its homepage, these claims are predicated on eBay's advertising efforts. Unlike the use of the Tiffany name on eBay's homepage, however, these sponsored links appear on outside search engines, rather than eBay's website itself.

Third, Tiffany makes the broader argument that eBay should be held liable for direct trademark infringement, "just as an officer or employee of a store selling infringing merchandise is jointly and severally liable with the store for that infringing sale." (Pl.'s Pretrial Mem. at 27.) This claim rests on eBay's alleged participation in the sales of counterfeit merchandise on the eBay website.

In response, eBay raises the defense of nominative fair use, arguing that it is "entitled to inform

third parties of the availability of listings of Tiffany merchandise on its website." (Def.'s Post-Trial Mem. at 39.) eBay further argues that because eBay does not directly sell the counterfeit merchandise to buyers, there can be no joint or several liability for direct infringement under Tiffany's theory. (Def.'s Post-Trial Mem. at 42-43.) For the reasons that follow, the Court concludes that eBay's use of the TIFFANY Marks is a protected, nominative fair use, and thus finds in favor of eBay with respect to the claims for direct trademark infringement.

1. Elements of Direct Infringement Under Federal and State Law

In order to prevail on a trademark infringement claim, a plaintiff must establish that "(1) it has a valid mark that is entitled to protection under the Lanham Act; and that (2) the defendant used the mark, (3) in commerce, (4) 'in connection with the sale . . . or advertising of goods or services,' (5) without the plaintiff's consent." *1-800 Contacts, Inc. v. WhenU.com, Inc.*, 414 F.3d 400, 406-07 (2d Cir. 2005) (quoting 15 U.S.C. § 1114(1)(a)); *see also Time, Inc. v. Petersen Publ'g Co.*, 173 F.3d 113, 117 (2d Cir. 1999); *Streetwise Maps, Inc. v. VanDam, Inc.*, 159 F.3d 739, 742 (2d Cir. 1998); *Genesee Brewing Co., Inc. v. Stroh Brewing Co.*, 124 F.3d 137, 142 (2d Cir. 1997). In addition, "the plaintiff must show that defendant's use of that mark 'is likely to cause confusion . . . as to the affiliation, connection, or association of [defendant] with [plaintiff], or as to the origin, sponsorship, or approval of [the defendant's] goods, services, or commercial activities by [plaintiff].'" *1-800 Contacts, Inc.*, 414 F.3d at 406-07 (quoting 15 U.S.C. § 1125(a)(1)(A)); *see also Estee Lauder Inc. v. The*

Gap, Inc., 108 F.3d 1503, 1508-09 (2d Cir. 1997); *Gruner + Jahr USA Publ'g v. Meredith Corp.*, 991 F.2d 1072, 1075 (2d Cir. 1993).

Courts often summarize this analysis in a two-pronged test. The test asks first whether the plaintiff's mark is valid and entitled to protection, and second whether the defendant's use of the mark is likely to cause confusion as to the origin of the goods. *See Savin*, 391 F.3d at 456 (describing a two-prong test for trademark infringement); *Virgin Enters. v. Nawab*, 335 F.3d 141, 146 (2d Cir. 2003). For the purpose of this trial, no dispute exists as to the first prong: eBay has stipulated to Tiffany's registration of its marks, and there is no question but that the TIFFANY Marks are famous. Therefore, the TIFFANY Marks are plainly valid and entitled to protection. The Court thus turns to the second prong of the test and, in particular, the defense of nominative fair use raised by eBay.[27]

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[27] There is some dispute about whether "nominative fair use" is properly characterized as an affirmative defense or as a substitute for the "likelihood of confusion" inquiry (which itself is included in the second prong of the Second Circuit's two-pronged test). *Compare Century 21 Real Estate Corp. v. Lendingtree, Inc.*, 425 F.3d 211, 217-224 (3d Cir. 2005) (holding that nominative fair use is an affirmative defense to a *prima facie* case of likelihood of confusion, similar to the fair use defense), *with Playboy Enters., Inc. v. Welles*, 279 F.3d 796, 806 (9th Cir. 2002) (holding that an assertion of nominative use gives rise to a modified likelihood of confusion analysis). The Court need not choose between these two approaches, as the outcome would be the same under either analytical framework.

2. Analysis

a. eBay's Use of the TIFFANY Marks on its Home-page

Tiffany argues that eBay has used Tiffany's marks by advertising the availability of Tiffany items on the website in several ways — on the eBay home page, through communications with sellers and buyers, and through lists of top search terms and popular brand names. (*See* Pl.'s Pretrial Mem. at 26- 27.) In response, eBay submits that such use does not constitute direct trademark infringement under the Lanham Act because it is protected by the doctrine of nominative fair use. (Def.'s Post-Trial Mem. at 39.) Even assuming *arguendo* that eBay's use meets the second prong of the test for direct infringement, the Court concludes that eBay's use of the mark is protected by the doctrine of nominative fair use.

Under trademark law, trademark owners cannot prevent others from making a descriptive use of their trademark. "While a trademark conveys an exclusive right to the use of a mark in commerce in the area reserved, that right generally does not prevent one who trades a branded product from accurately describing it by its brand name, so long as the trader does not create confusion by implying an affiliation with the owner of the product." *Dow Jones,* 451 F.3d at 308. This type of descriptive use of a trademark is protected under the doctrine of nominative fair use. *See Merck & Co., Inc. v. Mediplan Health Consulting, Inc.,* 425 F. Supp. 2d 402, 413 (S.D.N.Y. 2006), *reconsideration denied,* 431 F. Supp. 2d 425 (S.D.N.Y. 2006). "Such nominative use of a mark — where the only word reasonably available to describe a particular thing is pressed

into service — lies outside the strictures of trademark law." *New Kids on the Block v. News Am. Publ'g, Inc.*, 971 F.2d 302, 308 (9th Cir. 1992) (emphasis omitted). This doctrine is essential because it is undisputed that trademark owners cannot use trademark law to prevent the resale of authentic, trademarked goods. *See, e.g.*, *Polymer Tech. Corp.*, 975 F.2d at 61-62 ("As a general rule, trademark law does not reach the sale of genuine goods bearing a true mark even though the sale is not authorized by the mark owner."); *Kitty Walk Sys., Inc. v. Midnight Pass Inc.*, 460 F. Supp. 2d 405, 407 (E.D.N.Y. 2006) (stating that resale of authentic goods "is neither trademark infringement nor unfair competition").[28]

Under the doctrine of nominative fair use, "[a] defendant may use a plaintiff's trademark to identify the plaintiff's goods so long as there is no likelihood of confusion about the source of defendant's product or the mark-holder's sponsorship or affiliation." *Merck & Co.*, 425 F. Supp. 2d at 413; *see Nihon Keizai Shimbun, Inc. v. Comline Bus. Data, Inc.*, 166 F.3d 65, 73 (2d Cir. 1999); 3 J. Thomas McCarthy, *McCarthy on Trademarks and Unfair Competition* § 23:11 (4th ed. 2007). The nominative fair use defense is proven when: "'[f]irst, the product or service in question must be one not readily identifiable without use of the trademark;

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[28] The doctrine has been implicitly recognized by the Second Circuit, *see Dow Jones*, 451 F.3d at 308; *Chambers v. Time Warner, Inc.*, 282 F.3d 147, 156 (2d Cir. 2002), and applied by several district courts in this Circuit, *see, e.g.*, *S&L Vitamins, Inc. v. Australian Gold, Inc.*, 521 F. Supp. 2d 188 (E.D.N.Y. 2007); *Merck & Co.*, 425 F. Supp. 2d at 413; *Nasdaq Stock Mkt., Inc. v. Archipelago Holdings, LLC*, 336 F. Supp. 2d 294 (S.D.N.Y. 2004).

second, only so much of the mark or marks may be used as is reasonably necessary to identify the product or service; and third, the user must do nothing that would, in conjunction with the mark, suggest sponsorship or endorsement by the trademark holder.'" *New Kids on the Block,* 971 F.2d at 308; *see also EMI Catalogue Pshp. v. Hill, Holliday, Connors, Cosmopulos Inc.,* No. 99-7922, 2000 U.S. App. LEXIS 30761, at *21 (2d Cir. Sept. 15, 2000) ("Where a mark incorporates a term that is the only reasonably available means of describing a characteristic of another's goods, the other's use of that term in a descriptive sense is usually protected by the fair use doctrine.") (citing *New Kids on the Block,* 971 F.2d at 308); *cf. Nihon Keizai Shimbun, Inc.,* 166 F.3d at 73 (noting that where "it will usually be impossible to identify the source of the factual information without using a registered trademark of the source," the use of the trademark is protected).

The Court concludes that eBay's use of the TIFFANY Marks was protected under the nominative fair use doctrine. First, eBay demonstrated that the product in question — here, Tiffany silver jewelry — was not readily identifiable without the use of the Tiffany trademark. *See Playboy Enters. v. Welles,* 279 F.3d 796, 802 (9th Cir. 2002) ("This situation arises when a 'trademark also describes a person, a place or an attribute of a product' and there is no descriptive substitute for the trademark.") (quoting *New Kids on the Block,* 971 F.2d at 308). The record has made such a finding eminently clear; the Tiffany name is what gives the jewelry the cachet it enjoys. Absent the Tiffany brand, a silver heart necklace or a silver bracelet with an ID chain would simply be a piece of jewelry, instead of a symbol of luxury. In-

deed, were eBay precluded from using the term "Tiffany" to describe Tiffany jewelry, eBay would be forced into absurd circumlocutions. To identify Tiffany jewelry without using the term Tiffany — perhaps by describing it as "silver jewelry from a prestigious New York company where Audrey Hepburn once liked to breakfast," or "jewelry bearing the same name as a 1980s pop star" — would be both impractical and ineffectual in identifying the type of silver jewelry available on eBay. Accordingly, the Court finds that the product or service in question is not readily identifiable without use of the TIFFANY Marks.

Second, eBay has demonstrated that it used only so much of the mark or marks as was reasonably necessary to identify the product or service. *See New Kids on the Block,* 971 F.2d at 308. In *Playboy Enterprises v. Welles,* the court found that the defendant's use of the trademarked word "Playboy," without the font or symbols — *e.g.*, the famous Playboy bunny — associated with the trademark, constituted fair use because the use was limited to what was reasonably necessary and no more. 279 F.3d at 802. In the instant case, eBay's use of the TIFFANY Marks on its website and in its communications to eBay buyers and sellers is similarly limited to the Tiffany name. (*See, e.g.*, Pl.'s Exs. 1158, 1159, 1160, 1161, 1164.) eBay has thus met its burden on this element of the *New Kids* test.

Finally, eBay has shown that it did not do anything that would suggest sponsorship or endorsement by the trademark holder. *See New Kids on the Block,* 971 F.2d at 308. Clearly, "a use is not nominative if it creates a likelihood of confusion about the mark-holder's affiliation or sponsor-

ship." *Chambers v. Time Warner,* No. 00 Civ. 2839 (JSR), 2003 U.S. Dist. LEXIS 3065, at *10 (S.D.N.Y. Mar. 5, 2003); *see also Dow Jones,* 451 F.3d at 308 n.14; *Courtenay Commc'ns. Corp. v. Hall,* 334 F.3d 210, 214 (2d Cir. 2003); *Pebble Beach Co. v. Tour 18 I Ltd.,* 155 F.3d 526, 546 (5th Cir. 1998). However, the mere use of a trademarked term to describe something is not enough to suggest sponsorship or endorsement. *See Cairns,* 292 F.3d at 1155 (holding that even without explicit disclaimer, no endorsement or sponsorship was suggested when there was no evidence in the record that rights holders were associated with the alleged infringers); *Playboy Enters.,* 279 F.3d at 803 (holding that "it would be unreasonable to assume that [Playboy] currently sponsors or endorses someone who describes herself as a 'Playboy Playmate of the Year in 1981,'" especially where website included explicit disclaimer); *Merck & Co.,* 425 F. Supp. 2d at 414 (holding that there is nothing improper about the use of a trademark to communicate that goods bearing that mark were actually sold on defendant's website); *cf. Courtenay Commc'ns Corp.,* 334 F.3d at 214 (holding that use of trademarked term on website in a way that created the impression that the trademarked organization had endorsed defendants' services was not protected).

Under these principles, the Court concludes that eBay's use of the TIFFANY Marks on its website did not create the impression that Tiffany had affiliated itself with, sponsored, or endorsed the sale of Tiffany items on eBay. Unlike the website owner in *Courtenay,* eBay did not use TIFFANY's Marks in such a way as to suggest that Tiffany endorsed eBay or was an affiliate of eBay. At most, the use of the TIFFANY Marks suggested that

individual eBay sellers were selling authentic Tiffany merchandise on eBay. Given the Court's finding that authentic Tiffany merchandise was sold, quite legally, through eBay, and given the Court's finding that eBay always removed potentially infringing listings when Tiffany filed a NOCI, the Court cannot conclude that eBay's use of the TIFFANY Marks created the impression of sponsorship or endorsement by the trademark owner. *See Merck & Co.*, 425 F. Supp. 2d at 414. As the Supreme Court has long held, when a "mark is used in a way that does not deceive the public," there is "no such sanctity in the word as to prevent its being used to tell the truth. It is not taboo." *Prestonettes, Inc. v. Coty*, 264 U.S. 359, 368 (1924).

Moreover, there is scant evidence to suggest that eBay's use of the TIFFANY Marks on its website has confused customers as to whether *Tiffany itself* was selling its own merchandise through eBay. All three of the witnesses whom Tiffany presented on this subject testified via affidavit that they chose to purchase jewelry through eBay rather than at a Tiffany store because they hoped to buy the jewelry for less than it would cost at a Tiffany store. (Badart Decl. ¶ 4; Byron Decl. ¶ 3; Lahood Decl. ¶ 3.) The facts proved at trial do not show that consumers believed that Tiffany had endorsed the sale of new jewelry through eBay, or that consumers believed that Tiffany was a sponsor or affiliate of eBay. In short, while customers may have been confused about whether the product they purchased was an authentic Tiffany silver jewelry item or a counterfeit, they were certainly not confused about the immediate source of the silver jewelry — namely, individual eBay sellers.

Finally, the Court notes that Tiffany's "About Me" page on the eBay website clearly outlined the risks that consumers faced when purchasing Tiffany jewelry on eBay and that sellers faced when listing such jewelry for sale. (Chesnut Decl. ¶ 44.) Much like the disclaimer in *Playboy Enterprises*, the "About Me" page constituted an explicit disclaimer that Tiffany did not endorse or sanction the sale of its products through eBay.

Based on this evidence, the Court finds that eBay's use of the TIFFANY Marks did not suggest sponsorship or endorsement by Tiffany. Accordingly, the Court concludes that eBay's use of the TIFFANY Marks on its homepage was a protected nominative fair use and finds for the defendant with respect to these instances of alleged infringement.

b. Purchase of Sponsored Links

Tiffany next challenges eBay's practice of purchasing the keyword "Tiffany" as part of its sponsored links.[29] Tiffany has shown that eBay, for some time, purchased sponsored link advertisements on Yahoo! and Google advertising the availability of "Tiffany" items. (Briggs Decl. ¶ 25; Pl.'s Exs. 491, 1065.) While eBay has since ceased the direct purchase of sponsored links,[30] eBay has, through its Commission

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[29] By purchasing a "sponsored link," eBay ensured that when an Internet user typed the term "Tiffany" into a search engine, the search engine would generate, *inter alia*, a link to eBay's website. (Zalewska Decl. ¶ 121; Pl.'s Ex. 489.)

[30] The evidence in the record demonstrates that eBay ceased the practice of purchasing sponsored links for the TIFFANY Marks in 2003, in response to Tiffany's requests and in an effort to cooperate with Tiffany. (Briggs Decl.

[Footnote continued on next page]

Junction program, continued to reimburse sellers registered as "affiliates" for their purchase of sponsored links on Google that advertised the sale of Tiffany jewelry on eBay. (Pl.'s Ex. 477-480; 482; Tr. 469:4-470:2.) Tiffany asserts that this conduct constitutes direct trademark infringement. eBay urges the Court to conclude that under *1-800 Contacts, Inc. v. WhenU.com, Inc.*, 414 F.3d 400 (2d Cir. 2005), this conduct is not trademark "use" and thus is not infringing. For the reasons that follow, the Court concludes that *1-800 Contacts* is distinguishable from the instant case. Nevertheless, the Court finds that, even if eBay's conduct were to constitute "use" of the trademark, the conduct at issue is protected as a nominative fair use.

[Footnote continued from previous page]
¶¶ 25, 32.) Accordingly, eBay submits that this claim is moot. (Def.'s Post-Trial Mem. at 40 n.33.) Nevertheless, as a general rule, "voluntary cessation of allegedly illegal conduct does not deprive the tribunal of power to hear and determine the case, *i.e.*, does not make the case moot." *County of Los Angeles v. Davis*, 440 U.S. 625, 631 (1979) (quoting *United States v. W. T. Grant Co.*, 345 U.S. 629, 632 (1953)). Although a case may become moot "if the defendant can demonstrate that there is no reasonable expectation that the wrong will be repeated, this burden is a heavy one . . ." and has not been met here. *W. T. Grant Co.*, 345 U.S. at 633 (quotation omitted); *see, e.g.*, *Desiderio v. NASD*, 191 F.3d 198, 202 (2d Cir. 1999). *See also Hamzik v. Zale Corporation/Delaware*, No. 3:06-cv-1300, 2007 U.S. Dist. LEXIS 28981, at *10 n.5 (N.D.N.Y. Apr. 18. 2007) ("In any event, merely because Defendant quickly discontinued any offending conduct does not insulate them from any wrongful conduct, although it may serve to mitigate the extent of any liability.").

As noted earlier, one element of trademark infringement is whether a trademark has been "use[d] in commerce." 15 U.S.C. § 1114(1)(a); *see also 1-800 Contacts, Inc.*, 414 F.3d at 412. In recent years, the question of what Internet usage of trademarks constitutes "use" under the Lanham Act has been extensively litigated. Courts in this Circuit, relying on *1-800 Contacts*, have routinely held that the use of a trademark in keywords and metatags, where the use is strictly internal and not communicated to the public, does not constitute "use" under the Lanham Act and thus does not support a Lanham Act claim. *See, e.g.*, *1-800 Contacts, Inc.*, 414 F.3d at 409 (reversing trial court's grant of a preliminary injunction against use of plaintiff's mark to trigger pop-up advertising); *Site Pro-1 Inc. v. Better Metal, LLC*, 506 F. Supp. 2d 123, 127-28 (E.D.N.Y. 2007) (holding that where neither link to defendant's website nor surrounding text mentions plaintiff or plaintiff's trademark, there is no trademark infringement in purchasing sponsored link); *Fragrancenet.com, Inc. v. FragranceX.com, Inc.*, 493 F. Supp. 2d 545, 555 (E.D.N.Y. 2007) (denying as futile plaintiff's motion for leave to amend complaint to include a count alleging trademark infringement by sponsored linking); *Merck & Co.*, 425 F. Supp. 2d at 415-16 (use of a trademark as a keyword to trigger defendants' websites as sponsored links did not involve placement of the trademark "on any goods or containers or displays" nor did it "indicate source or sponsorship" and therefore was not use for trademark purposes); *Rescuecom Corp. v. Google, Inc.*, 456 F. Supp. 2d 393, 403 (N.D.N.Y. 2006) ("Defendant's internal use of plaintiff's trademark to trigger spon-

sored links is not a use of a trademark within the meaning of the Lanham Act, either because there is no allegation that defendant places plaintiff's trademark on any goods, containers, displays, or advertisements, or that its internal use is visible to the public.").[31]

Essential to the Second Circuit's reasoning in *1-800 Contacts* was the fact that the use of the trademarks was entirely internal. In that case, the plaintiff sought to enjoin defendant from using the plaintiff's mark to trigger pop-up advertising for defendant's website. Because the use of the trademark was entirely internal — as demonstrated by the fact that the Internet searcher saw only de-

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[31] Nevertheless, courts outside of the Second Circuit have found otherwise, holding that internal uses of a plaintiff's mark are "use" under the Lanham Act. *See Australian Gold, Inc. v. Hatfield*, 436 F.3d 1228, 1239 (10th Cir. 2006) (reversing trial court's allowance of summary judgment in favor of defendant who allegedly used plaintiff's mark to trigger pop-up advertisements); *Playboy Enters., Inc. v. Netscape Commc'ns Corp.*, 354 F.3d 1020, 1030 (9th Cir. 2004) (same); *J.G. Wentworth, S.S.C. Ltd. P'ship v. Settlement Funding LLC*, No. 06–0597, 2007 U.S. Dist. LEXIS 288, at *14-17 (E.D. Pa. Jan. 4, 2007) (finding that use of trademark in sponsored links is use under the Lanham Act); *Buying for the Home, LLC v. Humble Abode, LLC*, 459 F. Supp. 2d 310, 323 (D.N.J. 2006) (denying defendant's motion for summary judgment on plaintiff's trademark infringement claim based on sponsored links); *Edina Realty, Inc. v. TheMLSonline.com*, No. 04-CV-4371 (JRT), 2006 U.S. Dist. LEXIS 13775, at *9-10 (D. Minn. Mar. 20, 2006) (holding that purchase of search terms is a use in commerce); *Gov't Employees Ins. Co. v. Google, Inc.*, 330 F. Supp. 2d 700, 703-04 (E.D. Va. 2004) (denying defendant's motion to dismiss on plaintiff's trademark infringement claim based on sponsored links).

fendant's advertisement, not plaintiff's trademark — the use of the trademark was held to be "analogous to an individual's private thoughts about a trademark" and thus protected. *Id.* at 409. Similarly, in *Merck & Co.*, the Honorable Denny Chin, District Judge, dismissed a trademark infringement claim based on the purchase of sponsored links, applying the reasoning of *1-800 Contacts*. Judge Chin noted that the plaintiff's trademark had been used only in the sense that a computer user's search of the registered mark would trigger the display of sponsored links to the defendant's website. "This *internal use* of the mark . . . as a key word to trigger the display of sponsored links is not use of the mark in a trademark sense," he concluded. *Merck & Co.*, 425 F. Supp. 2d at 415 (emphasis added); *see also Merck & Co.*, 431 F. Supp. 2d at 427. In other words, under Second Circuit precedent, a company that makes internal use of another's mark to generate sponsored links is no different than a company that places its own advertisement in the Yellow Pages, right next to a listing for its well-known competitor. Therefore, to the extent that Tiffany challenges eBay's internal use of the term "Tiffany" to generate sponsored links to eBay, the law in this circuit is plain that internal use is not "use of the mark" in the trademark sense and eBay thus is not liable for direct infringement based on such conduct.

However, the instant case goes beyond the situation in *1-800 Contacts* because it does not merely involve internal use of a trademark. Rather, eBay's sponsored link purchases generated a link that displayed the TIFFANY Marks to the Internet searcher. For example, when a user typed in the search term "Tiffany," the search engine generated a

sponsored link that said, for example, "Tiffany for sale. New and Used Tiffany for sale. Check out the deals now! www.ebay.com." (Pl.'s Ex. 482.) Accordingly, eBay's use of the TIFFANY Marks resulted in the display of the TIFFANY Marks in conjunction with the eBay website address, and communicated the availability of Tiffany goods on eBay to the public. Therefore, eBay's use cannot be said to be limited to the *internal* use of a trademark in website operations. To extend the Yellow Pages analogy, it would be as if eBay purchased an ad in the Yellow Pages next to Tiffany's listing, and then used Tiffany's mark in its own advertisement.

Nevertheless, even if this type of activity were to constitute trademark "use" under the Lanham Act, *compare Hamzik,* 2007 U.S. Dist. LEXIS 28981, at *10-11 (plaintiff adequately alleged use where sponsored links generated plaintiff's trademark displays), *with S&L Vitamins*, 521 F. Supp. 2d at 201-02 (defendant's display of trademarks was not use under the Lanham Act since defendant actually sold the trademarked product on its website), the fact remains that such use is protected under the "nominative fair use" doctrine explained above. Put simply, eBay's use of the TIFFANY Marks in sponsored links is effectively identical to its use of the Tiffany name on the eBay website. Accordingly, the Court finds that eBay's practice of purchasing sponsored links to advertise Tiffany merchandise is protected by the defense of nominative fair use for the same reasons described above. *See supra* at Section III.C.2.a.

c. "Joint and Several Liability"

Tiffany also asserts that eBay is liable for direct trademark infringement "[j]ust as an officer or employee of a store selling infringing merchandise is jointly and severally liable with the store for that infringing sale." (Pl.'s Pr. Findings at 27). For this proposition, Tiffany cites *Gucci America, Inc. v. Exclusive Imports International*, No. 99 Civ. 11490 (RCC), 2007 WL 840128, at *6 (S.D.N.Y. Mar. 19, 2007). That case is wholly distinguishable. In *Gucci*, the defendants themselves took possession of and were the principal sellers of the counterfeit watches at issue. By contrast, Tiffany has stipulated that eBay never takes possession of items sold through its website, and that eBay does not directly sell the counterfeit Tiffany merchandise to buyers. (PTO at 7; Chesnut Decl. ¶ 4 1, Briggs Decl. ¶¶ 10-11.) Indeed, Tiffany's "joint and several liability" theory of direct infringement is misplaced, and is more properly addressed under the theory of contributory infringement, discussed *infra*.

For the foregoing reasons, the Court concludes that eBay is not liable for direct trademark infringement under state or federal law.

D. Contributory Infringement under Federal and Common Law

It is well established that "liability for trademark infringement can extend beyond those who actually mislabel goods with the mark of another." *Inwood*, 456 U.S. at 853; *see also Cartier Int'l B.V. v. Liu*, No. 02 Civ. 7926 (TPG), 2003 WL 1900852, at *3 (S.D.N.Y. Apr. 17, 2003) (finding an indirect actor liable for trademark counterfeiting when the party knew or had reason to know it was engaging in trademark infringement); *Grant Airmass Corp. v.*

Gaymar Indus., Inc., 645 F. Supp. 1507, 1511 (S.D.N.Y. 1986) ("[L]iability under the Lanham Act has been construed to extend beyond those who actually misrepresent goods or directly place such goods in commerce."). Courts in this Circuit have recognized that "one may be held liable as a contributory infringer, notwithstanding the fact that one does nothing to assist an infringing party." *Power Test Petroleum Distribs. v. Manhattan & Queens Fuel Corp.*, 556 F. Supp. 392, 395 (S.D.N.Y. 1982) (citation omitted). The elements required to prevail on contributory trademark infringement and unfair competition claims under New York law mirror the Lanham Act claims for trademark infringement and unfair competition. *See Standard & Poor's*, 683 F.2d at 708. Accordingly, the Court will consider Tiffany's allegations of contributory infringement under state and federal law together.

The Court's analysis of Tiffany's contributory infringement claim proceeds in five parts. First, the Court concludes that the test articulated by the Supreme Court in *Inwood Laboratories, Inc. v. Ives Laboratories, Inc.*, 546 U.S. 844 (1982), rather than the test articulated in the Restatement (Third) of Unfair Competition § 27 (1995), governs this claim. Second, the Court concludes that *Inwood* applies to entities like eBay that provide a marketplace for infringement and maintain direct control over that venue. Third, the Court concludes that, under *Inwood*, Tiffany's generalized assertions of trademark infringement are insufficient to establish that eBay knew or had reason to know of the infringement at issue. Fourth, the Court concludes that eBay was not willfully blind to evidence of counterfeiting on its website. Finally, the Court concludes that when eBay had the requisite

knowledge of infringement, eBay took appropriate steps to cut off the supply of its service to the infringer, both by removing the infringing listing and by eventually suspending the seller. Accordingly, the Court concludes that eBay is not liable for contributory trademark infringement.

1. Elements of Contributory Infringement

Contributory trademark infringement is a judicially constructed doctrine articulated by the Supreme Court in *Inwood*. In that opinion, the Supreme Court held that:

> [I]f a manufacturer or distributor intentionally induces another to infringe a trademark, or if it continues to supply its product to one whom it knows or has reason to know is engaging in trademark infringement, the manufacturer or distributor is contributorially responsible for any harm done as a result of the deceit.

456 U.S. at 854.

The first prong of the *Inwood* standard for contributory trademark infringement, which recognizes contributory liability when "a manufacturer or distributor intentionally induces another to infringe a trademark," *Inwood*, 456 U.S. at 854, is inapplicable here, because Tiffany has not alleged that eBay intentionally induced infringement of Tiffany's marks. Tiffany relies instead upon the second prong of the *Inwood* standard, which recognizes contributory liability when a "manufacturer or distributor . . . continues to supply its product to one whom it knows or has reason to know is engaging in trademark infringement." *Id.* Specifically, Tiffany claims that eBay "continues to provide its platform despite

its knowledge, or reason to know, that counterfeit merchandise is being sold." (PTO at 2-3.)

As an alternative to the *Inwood* test, Tiffany proposes that the Restatement provides a separate basis for liability. The critical distinction between this alternative test and the *Inwood* test turns on the appropriate standard for knowledge. As noted above, *Inwood* requires that a plaintiff prove that the defendant "knows or has reason to know" that it is supplying its product to an infringer. *Inwood*, 456 U.S. at 854. Under the Restatement, however, a party may be found liable for contributory trademark infringement where "the actor fails to take reasonable precautions against the occurrence of the third person's infringing conduct in circumstances in which the infringing conduct can be reasonably anticipated." Restatement (Third) of Unfair Competition § 27 (1995). In short, Tiffany argues that the "test is whether wrongdoing by [a seller] 'might well have been anticipated by [eBay]." (Pl.'s Pr. Findings at 32 (quoting *Coca-Cola Co. v. Snow Crest Beverages, Inc.*, 64 F. Supp. 980, 989 (D. Mass. 1946) (citation omitted)).)

Tiffany's argument is foreclosed by *Inwood* itself. The *Inwood* majority, in response to Justice White's concurring opinion,[32] explicitly re-

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[32] Justice White voiced a concern that the Supreme Court had endorsed the "reasonable anticipation" standard, thus "silently [acquiescing] in a significant change in the test for contributory infringement." *Inwood*, 456 U.S. at 860 (White, J. concurring). Justice White expressed his concern that the mere fact that a generic drug producer "can anticipate that some illegal substitution will occur to some unspecified extent, and by some unknown pharmacists, should not by itself be a predicate for contributory liability." *Id.*

jected the notion that it was endorsing the "reasonable anticipation" standard, holding that "[i]f the Court of Appeals had relied upon [the reasonable anticipation standard] to define the controlling legal standard, the court indeed would have applied a 'watered down' and incorrect standard." *Inwood,* 456 U.S. at 854 n.13. To the contrary, the *Inwood* majority stated, the Court of Appeals had used the "reasonable anticipation" language merely to buttress the conclusion that the legal test for contributory infringement had been met. *See id.* at 854 n.13.

Not surprisingly, the majority of the courts that have considered this question since have rejected the "reasonable anticipation" standard for contributory infringement. *See, e.g., GMC v. Keystone Auto. Indus.*, No. 02-74587, 2005 U.S. Dist. LEXIS 23168, at *35 n.21 (E.D. Mich. May 10, 2005) ("The Supreme Court specifically noted that a 'could reasonably anticipate' standard is not proper because it is a 'watered down' version of the proper test."), *rev'd on other grounds*, 453 F.3d 351 (6th Cir. 2006); *P&G v. Haugen,* 158 F. Supp. 2d 1286, 1294 (D. Utah 2001) ("[Plaintiff's] argument that [defendant] 'could anticipate the [infringement]' does not meet the standard for contributory infringement."); *Medic Alert Found. United States, Inc. v. Corel Corp.*, 43 F. Supp. 2d 933, 940 (N.D. Ill. 1999) ("The standard is not whether a manufacturer 'could reasonably anticipate' possible infringement, but rather whether it knew or had reason to know that a third party is engaging in trademark infringement and continued to sell its products to that third-party."); *Lockheed Martin Corp. v. Network Solutions*, 175 F.R.D. 640, 646 (C.D. Cal. 1997) ("An allegation of mere negligence in supplying a product used to infringe does not meet

this standard. *Inwood*, 456 U.S. at 854 n.13 (disapproving standard under which defendant would be liable for contributory infringement if defendant 'could reasonably anticipate' use of product to infringe)."); *David Berg & Co. v. Gatto Int'l Trading Co.*, 9 U.S.P.Q.2d (BNA) 1070, at *11 (N.D. Ill. 1988) ("That one 'could reasonably anticipate' an illegal use of the mark, however, is not sufficient" to establish contributory trademark infringement.); *but see Ciba-Geigy Corp. v. Bolar Pharm. Co.*, 547 F. Supp. 1095, 1116 (D.N.J. 1982) (holding that "reasonable anticipation" standard for the tort of passing off under section 43(a) of the Lanham Act remains the law in the Third Circuit), *aff'd*, 719 F.2d 56 (3d Cir. 1983) (*but see* dissenting opinion of Giles, J., concluding that *Inwood* "signaled the demise of the reasonable anticipation standard")).

For these reasons, the Court concludes that the plain language of *Inwood* forecloses the application of the "reasonable anticipation" standard as a basis to impose liability for contributory trademark infringement. The Court, accordingly, will not apply the "reasonable anticipation" standard.

2. Product, Service, or Venue

Under *Inwood*, to be liable for contributory trademark infringement, a manufacturer or distributor must continue to supply "its product" to an infringer. *Inwood*, 456 U.S. at 854. eBay argues that its website is not a "product," as defined by *Inwood*. Rather, eBay characterizes its website as a "*service* [that] does not trade in the *products* at issue." (Def.'s Pretrial Mem. at 11.) Specifically, eBay argues that its website is, instead, a "venue for listings created and posted by third parties." (Def.'s Pr.

Concl. of Law at 28.) For this proposition, eBay relies on the Seventh Circuit's statement in *Hard Rock Café Licensing Corporation v. Concession Services, Inc.*, that it is "not clear how the doctrine [of contributory trademark infringement] applies to people who do not actually manufacture or distribute the good that is ultimately palmed off as made by someone else." 955 F.2d 1143, 1148 (7th Cir. 1992). Accordingly, eBay submits that where the thing supplied is a service, not a product, there is no basis for the imposition of contributory liability. (Def.'s Pretrial Mem. at 11; Def.'s Pr. Findings at 28.) In response, Tiffany argues that eBay has construed the case law too narrowly. The Court agrees with Tiffany that *Inwood* extends beyond merely imposing liability on a manufacturer or distributor of a product.

a. Legal Standard

The distinction between products and services arises from the language that the Supreme Court used in *Inwood*. Because the specific conduct at issue in *Inwood* centered on the manufacture of a product, the Supreme Court's description of the elements of contributory infringement stated that the manufacturer or distributor is liable for contributory trademark infringement if it continues to supply a *product* to an infringer. *Id.* at 854. It is this language upon which eBay relies.

Nevertheless, cases decided after *Inwood* have expanded the concept of contributory trademark infringement beyond the facts identified in *Inwood*, and have not limited liability for contributory infringement to situations involving misuse of a manufacturer's product. First, in *Hard Rock Café*, the Seventh Circuit considered the question of

whether the owner of a flea market could be held liable for contributory trademark infringement on the grounds that vendors in the flea market were selling shirts that infringed the Hard Rock Café trademark. The court first noted that it is "not clear how the doctrine [of contributory trademark infringement] applies to people who do not actually manufacture or distribute the good that is ultimately palmed off as made by someone else." *Hard Rock Café*, 955 F.2d at 1148. This is the same language upon which eBay relies in arguing that liability does not extend to service providers and entities like itself. However, despite the fact that the flea market was clearly not a "product," the *Hard Rock Café* court determined that the common law imposed "the same duty on landlords and licensors that the Supreme Court has imposed on manufacturers and distributors." *Id.* at 1149. In reaching this conclusion, the court noted that the flea market operator was not merely a landlord, but advertised and promoted the activity on its premises, sold admission tickets to buyers, and supervised the premises. *Id.* at 1148. Accordingly, the court held that the *Inwood* test applied. *Id.* at 1149.

Similarly, in *Fonavisa, Inc. v. Cherry Auction, Inc.*, the Ninth Circuit reversed the trial court's decision to dismiss a claim against a swap meet operator with respect to the sale of counterfeit recordings. 76 F.3d 259, at 261-62 (9th Cir. 1996). In that case, there was evidence that numerous vendors operating at the swap meet had sold counterfeit recordings. The premise for liability was that the market's operator was supplying the necessary marketplace for the sale of counterfeit goods in substantial quantities. *Id.* at 264-65. While defendants argued that liability under *Inwood* was to be

limited to manufacturers of products, the Ninth Circuit held that the Supreme Court in *Inwood* "laid down no limiting principle that would require defendant to be a manufacturer or distributor." *Id.* at 265. The court therefore reinstated the complaint and remanded the action to the trial court.

While the Second Circuit Court of Appeals has not yet reached this issue, other courts, including courts in this District, have similarly applied the *Inwood* test for contributory liability to venues that provide a service. *See Int'l B. V. v. Ben-Menachem*, No. 06 Civ. 3917 (RWS), 2007 U.S. Dist. LEXIS 95366, at *32 (S.D.N.Y. Jan. 3, 2008) (imposing contributory liability on owners and residents of home in which counterfeit operations occurred openly, who were also direct financial beneficiaries of counterfeiting operations); *Polo Ralph Lauren Corp. v. Chinatown Gift Shop,* 855 F. Supp. 648, 650 (S.D.N.Y. 1994) (sustaining claim for contributory liability for landlords who allowed trademark infringers to use their property); *see also Mini Maid Services Co. v. Maid Brigade Systems, Inc.*, 967 F.2d 1516 (11th Cir. 1992) (imposing liability on franchisers who allowed franchisees to infringe trademarks); *Habeeba's Dance of the Arts, Ltd. v. Knoblauch*, 430 F. Supp. 2d 709, 714-15 (S.D. Ohio 2006) (sustaining claim for contributory liability for landlords who allowed trademark infringers to use their property).

In *Lockheed Martin Corporation v. Network Solutions, Inc.*, the Ninth Circuit, synthesizing the holdings of *Hard Rock Café* and *Fonavisa*, determined that whether the venue is online or in brick and mortar is immaterial. 194 F.3d 980, 984 (9th Cir. 1999). The relevant inquiry is, instead,

"the extent of control exercised by the defendant over the third party's means of infringement." *Id.* at 984. The court further noted that "[d]irect control and monitoring of the instrumentality used by a third party to infringe the plaintiff's mark permits the expansion of *Inwood Lab.'s* 'supplies a product' requirement for contributory infringement." *Id.* at 984. Because the facts in *Lockheed Martin* demonstrated that the defendant was a service that did not have "direct control and monitoring" over those who infringed the plaintiff's mark, the court determined that the defendant, a contractor in charge of registering Internet domain names, was not contributorily liable as a matter of law. *Id.* at 985. Several courts have followed *Lockheed Martin* and assessed the extent of control exercised by the defendant over the actual infringer's means of infringement in determining whether a defendant may be contributorily liable. *See Perfect 10, Inc. v. Visa Int'l Serv. Ass'n*, 494 F.3d 788, 807 (9th Cir. 2007) (declining to impose liability on website operator when operator did not have "the power to remove infringing material from these websites or directly stop their distribution over the Internet"); *SB Designs v. Reebok Int'l, Ltd.*, 338 F. Supp. 2d 904, 913 (N.D. Ill. 2004) (declining to impose liability on a service provider who lacked direct control); *Fare Deals, Ltd. v. World Choice Travel.com, Inc.*, 180 F. Supp. 2d 678, 689 (N.D. Md. 2001) ("To find contributory liability in the absence of the kind of direct control vested in the landlord of a landlord-tenant relationship 'would reach well beyond the contemplation of *Inwood Lab[oratories]* and its progeny.") (quoting *Lockheed Martin Corp.*, 194 F.3d at 985).

Accordingly, the Court concludes that *Inwood* can and has been read to impose liability for con-

tributory trademark infringement beyond manufacturers and distributors of products. Given this broader application of *Inwood,* the Court finds the Ninth Circuit's reasoning in *Lockheed Martin* to be a persuasive synthesis of the relevant inquiry that the Court must undertake in determining whether the provider of a service is potentially liable for contributory trademark infringement, and will thus look to the extent of the control exercised by eBay over its sellers' means of infringement. In adopting the *Lockheed Martin* analysis, the Court notes that while this case has not been explicitly endorsed by the Second Circuit, it has been cited with approval in the Southern District of New York. *See, e.g., Gucci Am., Inc. v. Hall & Assocs.*, 135 F. Supp. 2d 409, 416 n.14 (S.D.N.Y. 2001).

b. Analysis

In the case at hand, eBay clearly falls on the "service" side of the product/service distinction. Accordingly, the Court will look not only to whether eBay provided the necessary marketplace for the counterfeiting (which it clearly did), but further, to whether eBay had direct control over the means of infringement. eBay argues that it lacked such control and indeed, that it is more like an online classified ads service than an online flea market, noting that it is undisputed that eBay never took possession of the items sold via its website, and that eBay could not physically inspect, examine, or authenticate such items. The evidence at trial also demonstrated that eBay has limited control over the listings and advertisements on its website, and that individual sellers have a great deal of latitude in describing the products that are for sale. (Def.'s Ex. 77; Briggs Decl. ¶ 12.) Nevertheless, in examining all of

the facts that were proved at trial, the Court finds by a preponderance of the evidence that eBay exercises sufficient control and monitoring over its website such that it fits squarely within the *Fonavisa* and *Hard Rock Café* line of cases.

In reaching this conclusion, the Court first notes that while eBay itself does not sell or possess the items available on its website, eBay retains significant control over the transactions conducted through eBay. By providing the software to set up the listings and store listing information on its servers, eBay supplies the necessary marketplace for the sale of counterfeit goods. eBay takes an active role in supplying customers — namely, registered buyers — to registered sellers, and actively facilitates transactions between them.

Second, eBay has actively promoted the sale of Tiffany jewelry items. eBay advertises merchandise on its own website as well as through other websites, including until 2003, Google and Yahoo!. (Pl.'s Exs. 392, 1064.) eBay also actively works with sellers and Power Sellers to help them grow their jewelry business. eBay's seminars, account management programs, and research on most frequently-searched terms all actively contribute to the sale of items on eBay. eBay even told its sellers that Tiffany was one of the "most effective keywords" and had one of the best "Returns on Investment." (Pl.'s Ex. 184; Zeig Dep. Tr. 141:21-145:4.) For example, in an eBay newsletter provided to its top jewelry sellers, in the section entitled, "Planning for Growth: Accelerate Your Sales," eBay advised its top sellers to "us[e] recommended keywords to boost sales," and identified "Tiffany & Co." as one such keyword. (Pl.'s Ex. 129.)

Third, eBay profits from the listing of items and successful completion of sales, through insertion fees and final value fees. (Briggs Decl. ¶ 20; Pl.'s Ex. 1151; Tr. 404:24-405:12.) eBay also profits by taking an additional percentage of the sales price if the transaction is consummated through PayPal. (Pl.'s Ex. 1156.)

Fourth, eBay maintains significant control over the listings on its website. Certain categories of items are entirely barred from the website, including drugs, firearms, and alcohol products. (Pl.'s Ex. 4.) The fraud engine screens listings and removes items that use specific terms in the listing description, for example, "counterfeit" or "fake." (Chestnut Decl. ¶ 4; Tr. 587:19-588:10.) Through eBay's User Agreements, users are required to abide by the terms of use, and eBay retains the right to suspend those users who fail to do so. (Chesnut Decl. ¶ 47; PTO at 7.)

Finally, to the extent eBay styles itself as a classified ad service, eBay's own witnesses admitted that eBay maintains a classified ad service separate and apart from the eBay listings that are at issue in this action. (Tr. 397: 10-16.)[33]

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[33] During the course of this litigation, eBay has intermittently described itself as a "classified advertiser" (Chesnut Decl. ¶ 5), rather than an online auction house or flea market, in an apparent attempt to evade liability under *Inwood* as well as to qualify for the "innocent infringer" defense found in the Lanham Act, 15 U.S.C. § 1114(2). Specifically, Section 1114(2)(B) protects a "publisher or distributor of such newspaper, magazine, or other similar periodical or electronic communication . . . ." 15 U.S.C. § 1114(2)(B). Despite the fact that eBay never takes physical custody of the items sold on its website, eBay

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Accordingly, the Court concludes that eBay is analogous to a flea market like those in *Hard Rock Café* and *Fonavisa*, and that it is inappropriate to compare eBay to an online classified ad service. *See also Hendrickson v. eBay Inc.*, 165 F. Supp. 2d 1082, 1084 n.2 (C.D. Cal. 2001) (rejecting eBay's characterization of itself as an online venue publishing 'electronic classified ads,' and finding that "eBay's Internet business features elements of both traditional swap meets — where sellers pay for use of space to display goods — and traditional auction houses where goods are sold in a highest bid process"). Therefore, eBay's conduct must be assessed under the standard for contributory negligence set forth in *Inwood*.

3. Knowledge Or Reason To Know

Under the *Inwood* test, Tiffany must prove that eBay continued to supply its services "to one whom it knows or has reason to know is engaging in trademark infringement." *Inwood*, 456 U.S. at 854. The evidence produced at trial demonstrated that eBay had *generalized* notice that some portion of the Tiffany goods sold on its website might be counterfeit. First, Tiffany sent eBay demand letters in 2003 and 2004, articulating its belief that large quantities of counterfeit Tiffany merchandise were being sold through the eBay web-

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nevertheless exerts sufficient control over the listings on its website such that it cannot qualify as a mere online version of a newspaper or a magazine that publishes classified ads. Accordingly, the innocent infringer defense is inapplicable. *See Hendrickson v. eBay, Inc.*, 165 F. Supp. 2d 1082, 1084 n.2 (C.D. Cal. 2001).

site, and that any seller of a significant lot — *e.g.*, of five or more pieces of purported Tiffany jewelry — was "almost certainly" selling counterfeit merchandise. (Pl.'s Ex. 489, 490, 429.) Second, Tiffany apprised eBay of the results of its Buying Programs, particularly, of the supposed finding that 73.1% of the Tiffany items it purchased in its 2004 Buying Program were counterfeit. (Pl.'s Ex. 492.) Third, Tiffany filed thousands of NOCIs alleging a good faith belief that certain listings were counterfeit or otherwise infringing on Tiffany's marks, and eBay received numerous complaints from buyers stating that they had purchased what they believed to be fake Tiffany jewelry through the eBay website.

Tiffany argues that this generalized knowledge required eBay to preemptively remedy the problem at the very moment that it knew or had reason to know that the infringing conduct was generally occurring, even without specific knowledge as to individual instances of infringing listings or sellers. (Pl.'s Post-Trial Mem. at 20, 22.) By contrast, eBay asserts that such generalized knowledge is insufficient, and that the law demands more specific knowledge of individual instances of infringement and infringing sellers before imposing a burden upon eBay to remedy the problem. (Def.'s Post-Trial Mem. at 9.)

Accordingly, before the Court is the question of whether eBay's *generalized* knowledge of trademark infringement on its website was sufficient to meet the "knowledge or reason to know" prong of the *Inwood* test.[34] For the following reasons, the

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[34] To the extent that eBay had actual or constructive knowledge or reason to know of *specific* instances of infringement and

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Court concludes that while eBay clearly possessed general knowledge as to counterfeiting on its website, such generalized knowledge is insufficient under the *Inwood* test to impose upon eBay an affirmative duty to remedy the problem.

a. Legal Standard

The Second Circuit has not defined how much knowledge or what type of knowledge a defendant must have to satisfy the "know or reason to know" standard set forth in *Inwood*.[35] However, the Court's conclusion that generalized knowledge is insufficient is supported in four ways. First, the plain language of *Inwood* states that the manufacturer or distributor is contributorily liable when "it continues to supply its product to *one* whom it knows or has reason to know is engaging in trademark infringement." *Inwood*, 456 U.S. at 854 (emphasis added). The Supreme Court's focus on indi-

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specific infringing sellers, whether through NOCIs or other complaints, the question is whether eBay continued to supply its product to those sellers. *See Inwood*, 456 U.S. at 854. The Court will consider this argument *infra*.

35 In the one Second Circuit case to address the "reason to know" standard, the court reversed a district court's dismissal of a motion for a preliminary injunction on the grounds of contributory trademark infringement. The Court held that "[a]lthough [defendant] denied knowledge of [a third party's] counterfeiting, it would not have taken a great leap of imagination for [defendant] to realize that, given their labelling, the [products] would have to be repackaged before they could be sold at retail." *Polymer Tech. Corp. v. Mimran*, No. 92-7177, 1992 U.S. App. LEXIS 32204 at *18 (2d Cir. Nov. 25, 1992). The court reversed the district court for its failure to discuss this evidence. *Id.* at *18-19.

vidual infringers through its singular language is consistent with a requirement of specific, rather than general, knowledge. *See also Perfect 10*, 494 F.3d at 807 ("[A] defendant must have . . . continued to supply an infringing *product* to *an infringer* with knowledge that the infringer is mislabeling the *particular* product supplied.") (emphasis added).

Second, at least one district court in this circuit to address this issue has held that "trademark plaintiffs bear a high burden in establishing 'knowledge' of contributory infringement." *Gucci,* 135 F. Supp. 2d at 420. As noted by the Eleventh Circuit, the determination of knowledge under *Inwood* is a contextual and fact-specific test, such that a district court should "consider the nature and extent of the communication," whether the defendant "explicitly or implicitly encouraged the trademark violations," "the extent and nature of the violations being committed," and whether there was a "bad faith refusal to exercise a clear contractual power to halt the infringing activities. . . ." *Mini Maid*, 967 F.2d at 1522.

Third, courts have been reluctant to extend contributory trademark liability to defendants where there is some uncertainty as to the extent or the nature of the infringement. In *Inwood*, Justice White emphasized in his concurring opinion that a defendant is not "require[d] . . . to refuse to sell to dealers who merely *might* pass off its goods." *Inwood*, 456 U.S. at 861 (White, J., concurring). In *Coca-Cola Co. v. Snow Crest Beverages,* 64 F. Supp. 980 (D. Mass. 1946), *aff'd*, 162 F.2d 280 (1st. Cir. 1947), an early and important contributory infringement case cited in *Inwood*, Coca-Cola asserted that Snow Crest had contributorily infringed its mark by selling "Polar Cola" to bartenders who sometimes

mixed the soda into customers' "rum and Coke" drinks. *Coca-Cola*, 64 F. Supp. at 989. Coca-Cola argued that Snow Crest should have known about the infringement because attorneys for Coca-Cola had informed Snow Crest's president of the bartending practice and indicated that their investigation revealed that the practice had occurred in 82 bars. *Id.* at 987-90. The district court found that such "lawyer's argumentative talk" was inadequate to establish that a reasonable businessperson in Snow Crest's position should have known that its products were being used to infringe, particularly because "plaintiff's counsel . . . did not give the names or the numbers of any offending bars," "did not inform defendant of the details of the investigation of the 82 bars," and "did not ask defendant to take any specific step to notify or caution bars against passing off." *Id.* The court reasoned that if it imputed knowledge to the defendant based on Coca-Cola's blanket demand, the court would be expanding Coca-Cola's property right in its trademark, allowing Coca-Cola to secure a monopoly over the entire mixed drink trade. *See id.* Such generalized notice, the court reasoned, was simply inadequate to impute knowledge to the defendants. *See id.*

Lockheed Martin Corp. v. Network Solutions, Inc., is particularly instructive in this matter. 985 F. Supp. at 965. In that case, the plaintiff sought to impose contributory trademark liability on defendant Network Solutions for accepting registrations of Internet domain names that were identical or similar to Lockheed Martin Corporation's SKUNK WORKS service mark. *Id.* at 950. Lockheed acknowledged that not all uses of the SKUNK WORKS mark were infringing, but contended that because Network Solutions reviewed registration requests, they were suf-

ficiently on notice as to potential infringement. *Id.* at 963. The court disagreed, holding that "Lockheed's argument would require the Court to impute knowledge of infringement to NSI in circumstances where the use of the term 'skunk works' in a domain name may or may not be infringing. Such an expansion of contributory liability would give Lockheed a right in gross to control all uses of 'skunk works' in domain names." *Id.* at 965. Similarly, the court further held that even after receiving plaintiff's demand letters, Network Solutions would not have reason to know that the holders of the allegedly infringing domain names were in fact infringing. *Id.* at 967.

By contrast, those courts that have determined that defendants had "reason to know" of infringement have relied on far more specific notice from plaintiffs to defendants. For example, in *Habeeba's Dance of the Arts*, 430 F. Supp. 2d at 714, the court determined that advance written notice of a specific infringing event, providing the date, the event, and the location of the event, would be sufficient to meet the knowledge requirement for contributory trademark infringement.

Significantly, Tiffany has not alleged, nor does the evidence support a conclusion, that all of the Tiffany merchandise sold through eBay is counterfeit. Rather, a substantial number of authentic Tiffany goods are sold on eBay, including both new and vintage silver jewelry, sometimes in lots of five or more. (*See, e.g.*, Def.'s Exs. 34, 270, 422.) As Justice White admonished, the doctrine of contributory trademark infringement should not be used to require defendants to refuse to provide a product or service to those who merely *might* infringe the

trademark. *Inwood*, 456 U.S. at 861 (White, J., concurring) (observing that whether a defendant "can anticipate that some illegal substitution will occur to some unspecified extent, and by some unknown [parties], should not by itself be a predicate for contributory liability"). Were Tiffany to prevail on its argument that generalized statements of infringement were sufficient to impute knowledge to eBay of any and all infringing acts, Tiffany's rights in its mark would dramatically expand, potentially stifling legitimate sales of Tiffany goods on eBay.[36] *See Lockheed Martin*, 985 F. Supp. at 965; *Coca-Cola*, 64 F. Supp. at 989. Given the presence of authentic goods on eBay, it therefore cannot be said that generalized knowledge of counterfeiting is sufficient to impute knowledge to eBay of any specific acts of actual infringement. *See id.*

Fourth, contrary to Tiffany's assertion, neither *Fonavisa* nor *Hard Rock Café* support the notion that generalized knowledge is sufficient. *Fonavisa* is not applicable because it reached the Ninth Circuit after the district court granted a motion to dismiss on the pleadings. *See Fonavisa*, 76 F.3d at 265. On appeal, the court noted that there was no dispute, for the purpose of the appeal, that the operators of the swap meet had actual knowledge that its vendors were selling counterfeit merchandise. Thus, because the swap meet's knowledge was not at issue in the ap-

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[36] Indeed, in Tiffany's pre-litigation letters to eBay, Tiffany demanded that eBay "ban the sale of Tiffany silver jewelry" altogether. (Pl.'s Ex. 492 at 2.) Accordingly, there is at least some basis in the record for eBay's assertion that one of Tiffany's goals in pursuing this litigation is to shut down the legitimate secondary market in authentic Tiffany goods.

peal, the court never reached the question of whether the facts in that case supported a finding of knowledge. *Id.* Similarly, in *Hard Rock Café*, the Seventh Circuit did not reach the question of whether the evidence supported a finding that the flea market had actual or constructive knowledge of the alleged infringement. *See Hard Rock Café*, 955 F.2d at 1149. Instead, the court simply reversed the district court's dismissal and suggested that the evidence *might* support a finding that the flea market operator had knowledge or was wilfully blind, based on the facts that the operator saw the allegedly infringing T-shirts, noticed that they "had cut labels and were being sold cheap," and nevertheless declined to ask further questions. *Id.*

In sum, neither precedent nor policy supports Tiffany's contention that generalized allegations of infringement provide defendants with knowledge or a reason to know of the infringement. This is particularly true where not all of the relevant conduct is in fact infringing; just as courts have rejected the reasonable anticipation standard as an alternative to *Inwood*, courts have also rejected a standard that would reach conduct that only *might be* infringing. Instead, courts have required a much higher showing that a defendant knew or had reason to know of specific instances of actual infringement.[37]

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[37] In concluding that the law of contributory trademark infringement sets a high burden for knowledge, the Court draws support from the analogous doctrine of copyright infringement. It is well established that the property right protected by trademark law is narrower than that protected by copyright law, and thus, that liability for contributory infringement of a

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b. Analysis

The evidence adduced at trial demonstrates eBay had *general knowledge* of infringement by sellers using its website. Such general knowledge, however, does not require eBay to take action to discontinue supplying its service to all those who *might* be engaged in counterfeiting. Having concluded that, as a matter of law, general knowledge of infringement is insufficient, the Court proceeds to consider whether the generalized assertions of infringement made by Tiffany are sufficiently specific to impute to eBay knowledge of any and all instances of infringing sales on eBay. The Court concludes that Tiffany's general allegations of counterfeiting failed to provide eBay with the knowledge required under *Inwood*.

i. Demand Letters and the "Five-or-More" Rule

As noted above, Tiffany provided eBay with demand letters in 2003 and 2004 asserting that

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trademark is narrower than liability for contributory infringement of a copyright. *See Sony Corp. v. Universal City Studios*, 464 U.S. 417, 439 n.19 (1984); *Perfect 10*, 494 F.3d at 806; *Fonovisa*, 76 F.3d at 265 (noting that "trademark infringement liability is more narrowly circumscribed than copyright infringement"). Under copyright law, generalized knowledge that copyright infringement may take place in an Internet venue is insufficient to impose contributory liability. *See, e.g., A&M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004, 1027 (9th Cir. 2001) ("The mere existence of the Napster system, absent actual notice and Napster's demonstrated failure to remove the offending material, is insufficient to impose contributory liability."); *Hendrickson*, 165 F. Supp. 2d at 1088-90 (holding that generalized notice of copyright infringements was insufficient to establish knowledge for the purpose of contributory liability).

counterfeiting was rampant on eBay's website and that any listing of five or more Tiffany items was presumptively counterfeit. (Pl. Ex. 489, 490). However, those courts to have considered the question have held that mere assertions and demand letters are insufficient to impute knowledge as to instances not specifically identified in such notices, particularly in cases where the activity at issue is not always infringing. *See, e.g., Gucci,* 135 F. Supp. 2d at 420 (holding that "trademark owner's mere assertion that its domain name is infringed is insufficient to impute knowledge of infringement," and a demand letter is also insufficient); *Fare Deals, Ltd. v. World Choice Travel.com, Inc.*, 180 F. Supp. 2d 678, 690-91 (D. Md. 2001) (finding that demand letter notifying defendant of plaintiff's position is insufficient); *Lockheed Martin Corp.*, 985 F. Supp. at 964 (holding that "trademark owner's demand letter is insufficient to resolve . . . uncertainty" of infringement); *Coca Cola*, 64 F. Supp. at 987 (holding general complaints about counterfeiting insufficient to establish knowledge).

In the face of this authority, Tiffany argues that its letters cannot be dismissed as general demand letters because they provided detailed notice to eBay of the problem and included the fact that there are no authorized third-party vendors for Tiffany merchandise. (Pl.'s Post-Trial Mem. at 27.) Thus, Tiffany asserts that it should have been apparent that any eBay seller offering five or more Tiffany items was almost certainly offering counterfeit merchandise. (*Id.* at 28; *see also* Pl.'s Ex. 489.) However, Tiffany has failed to present sufficient evidence demonstrating that a seller offering five items or more of Tiffany jewelry is presumptively dealing in counterfeit merchandise. Indeed, Tif-

fany's own CEO disavowed the importance of the five-or-more rule, calling it a "shorthand solution" and a "compromised effort" to make eBay "do a better job of preventing the sale of Tiffany counterfeit merchandise." (Tr. 822:14-23.) As extensively discussed in the Court's Findings of Fact, the precise contours of the "five or more" rule have shifted throughout litigation. Moreover, the evidence at trial demonstrated that the five-item limit is not regularly enforced by Tiffany itself, that lots of more than five identical Tiffany silver jewelry items are available through Tiffany's Corporate Sales Department and international trade accounts, and that lots of five or more pieces of authentic new Tiffany silver jewelry have been made available on eBay.

Accordingly, the record makes clear that not only was Tiffany ambiguous as to the precise contours of its proposed "five-or-more" rule, but that there is little support for the notion that the five-or-more rule presumptively demonstrated the presence of infringing items. eBay was under no obligation to credit the potentially self-serving assertions of a trademark owner, particularly when those assertions — such as the "five-or-more" rule — were unfounded, and when the trademark owner's demands, if met, clearly would have eliminated even legitimate sales on eBay. The doctrine of contributory trademark infringement cannot be used as a sword to cut off resale of authentic Tiffany items. *See Polymer Tech. Corp.*, 975 F.2d at 61-62 ("[T]rademark law does not reach the sale of genuine goods bearing a true mark even though the sale is not authorized by the mark owner"). Accordingly, the Court declines to impute knowledge or a reason to know of counterfeiting based on Tiffany's demand letters and its proposed five-or-more rule.

ii. Buying Programs

Tiffany next argues that the results of its Buying Programs provided eBay with knowledge of any and all instances of counterfeiting on eBay. The Court is unpersuaded. The actual results of the Buying Programs were provided to eBay only during post-complaint discovery. Accordingly, prior to the commencement of the instant litigation, the results of the Buying Programs were provided only in general, conclusory terms and merely put eBay on general notice that some counterfeit goods were being sold on eBay under the Tiffany mark. Yet this fact, alone, is not disputed; indeed, as discussed elsewhere, eBay had even prior to litigation taken steps to ensure that its website would not be a safe haven for sellers of counterfeit Tiffany goods.

Moreover, even assuming *arguendo* that eBay had complete knowledge of the Buying Programs at an earlier date, the Buying Programs do not, by themselves, establish eBay's knowledge of specific instances of counterfeiting. The search criteria for the Buying Programs did not include any search term or screen designed to identify five or more listings. (Tr. 282:13-17; Mantis Decl. ¶ 8.) Thus, despite Tiffany's assertions that the "five-or-more" rule is the operative framework through which eBay should have known that a listing was counterfeit, the Buying Programs provided no probative information on that issue whatsoever. In addition, as noted above, the Buying Programs were methodologically flawed and of questionable value in any event. (Tr. 289:19-290:4; 290:21-291:2.)

Finally, the Buying Programs did not even purport to reflect the number of potentially counterfeit Tiffany items available on a typical day, be-

cause Tiffany entirely suspended its normal policing procedures during the programs. (*Id.* at 291:12-21; Def.'s Ex. 266 at TCO 87125-26; *see also* Ericksen Decl. ¶¶ 36-38.) On an ordinary day, Tiffany would report those listings it determined to be potentially counterfeit, and eBay would remove those listings. Accordingly, the items identified by Tiffany during the Buying Programs would likely have been removed by eBay had they been reported. (*See, e.g.*, Pl.'s Ex. 1082.)

To be sure, the amount of counterfeit merchandise discovered in the Buying Programs is voluminous. Nevertheless, the Buying Programs simply put eBay on notice that, absent Tiffany's routine policing efforts via the VeRO Program, a high percentage of the merchandise sold as Tiffany sterling was counterfeit. The Buying Programs also revealed that even when Tiffany totally refrained from participating in the VeRO Program, some quantity of the jewelry sold through eBay was, in fact, genuine. Accordingly, the Court finds that the Buying Programs did not provide eBay with the requisite notice under *Inwood*, nor did the Buying Programs demonstrate that there was any support for Tiffany's request that eBay ban listings of Tiffany silver jewelry in lots of five or more as presumptively counterfeit. The Buying Programs gave eBay only generalized knowledge that some infringement was occurring on its website. This information was insufficient to require eBay to ban all Tiffany listings, particularly because Tiffany presented no evidence that eBay ever failed to remove a specific listing that had been reported to eBay through a NOCI.

iii. NOCIs and Buyer Complaints

Tiffany further argues that the large number of NOCIs that Tiffany has submitted to eBay since 2003, together with the volume of NOCIs from other rights owners and complaints from dissatisfied customers, should have put eBay on notice of the counterfeiting on its website. (Pl.'s Post-Trial Mem. at 28.) Prior to Tiffany's May 2003 demand letter (Pl.'s Ex. 489), Tiffany had already reported 1,182 listings to eBay that Tiffany believed to be infringing. After that letter, the number of NOCIs continued to increase every year. (Zalewska Decl. ¶¶ 74-78; Pl.'s Ex. 1082.) eBay produced customer complaints during a six-week period, from October 11, 2004 through December 31, 2004. During this relatively short time period, eBay received 125 emails from buyers stating that they had purchased fake Tiffany jewelry. (Pl.'s Ex. 493-625.)

Tiffany argues that not only did these complaints give eBay actual knowledge of specific infringing listings, they also provided eBay with general knowledge that a counterfeiting problem existed on its website. However, for the reasons described above, the Court finds that eBay responded appropriately to notice of specific infringing items, and that evidence of eBay's general knowledge of infringement is insufficient to impute knowledge to eBay of specific infringing listings.

4. Willful Blindness

Tiffany argues that, "[f]aced with Tiffany's letters and other evidence that the problem existed, eBay was obligated to conduct an investigation to determine the extent of counterfeit Tiffany silver jewelry available on its site." (Pl.'s Post-Trial Mem. at 35.) Tiffany contends that eBay could have

taken any number of steps to further investigate and understand the counterfeiting on its website, and that eBay's failure to do so constituted willful blindness, thus satisfying *Inwood's* knowledge requirement. (*Id.* at 35 n.31.) For the reasons below, the Court concludes that eBay was not willfully blind to evidence of infringement on its website.

a. Legal Standard

As noted above, *Inwood* requires a plaintiff to demonstrate that the defendant "knows or has reason to know" of a third party's trademark infringement. *Inwood*, 456 U.S. at 854. However, the "reason to know" standard can be satisfied by a showing that the defendant was willfully blind to the infringing activity. Willful blindness means a person must suspect wrongdoing and deliberately fail to investigate. *See Hard Rock Café*, 955 F.2d at 1149; *see also Louis Vuitton, S.A. v. Lee*, 875 F.2d 584, 590 (7th Cir. 1989) (finding that willful blindness occurs when defendant fails to inquire further because he is afraid of what the inquiry might yield); *Monsanto Co. v. Campuzano*, 206 F. Supp. 2d 1271, 1275 (S.D. Fla. 2002) (holding that willful blindness occurs when person suspects unlawful activity and purposefully fails to investigate).

b. Analysis

There is no dispute that eBay was *generally* aware that counterfeit Tiffany jewelry was being listed and sold on eBay even prior to Tiffany's initial demand letter. While the law does not impose a duty on eBay to take steps in response to generalized knowledge of infringement, the record is clear that eBay, nevertheless, made significant efforts to protect its website from counterfeiters. As described in the Findings of Fact, eBay has

invested tens of millions of dollars in anti-counterfeiting initiatives, including the VeRO Program and the fraud engine.

Tiffany argues that these general antifraud measures were inadequate because eBay could have done more to prevent the listing of counterfeit goods, and that the failure to do more constitutes willful blindness. (Pl.'s Post-Trial Mem. at 35.) Specifically, Tiffany's expert witness testified that eBay could have delayed listings, implemented quantity filters, and conducted data mining to identify "suspicious" sellers much earlier than it eventually did. (Piatetsky-Shapiro Decl. ¶ 14; Tr. 665:4-665:11; 738:12-740:20; 659:10-659:13.)

The Court is unpersuaded that eBay's failure to adopt the measures identified by Dr. Piatetsky-Shapiro constituted willful blindness, for the reasons stated above in the Findings of Fact. *See supra* at Section II.J. Moreover, the record clearly shows that over the time period relevant to this litigation, eBay was continually taking steps to further refine its anti-fraud measures. While Tiffany may have been dissatisfied with the efficacy or volume of these steps, based on the evidence demonstrated at trial, it cannot be said that eBay failed to make reasonable inquiries or to take further steps to pursue counterfeiters. Finally, the fact that eBay developed many new anti-fraud measures after the commencement of litigation in this action does not demonstrate that eBay could have effectively or consistently adopted those measures any earlier. While individual antifraud mechanisms may have been technologically available at an earlier point in time, the Court credits the testimony of Robert

Chesnut, eBay's Senior Vice President and Deputy General Counsel, who stated that

> [B]ecause of the nature of our systems, our systems usually push the edge of what was technologically capable, because our systems . . . were I think practically unique in terms of the loads that they placed on our computer systems. Our servers and our system would actually crash and our systems had come down in the past, because we reached, our site had reached the end of what was technically feasible to do. I can tell you as a whole as a company we pushed the envelope about what was available technologically.

(Tr. 765:8-17.) From this testimony, the Court concludes that eBay implemented the additional anti-fraud measures that Tiffany sought as soon as it was reasonably and technologically capable of doing so.

Tiffany further submits that in order to avoid liability for willful blindness, eBay was obligated to take steps such as conducting its own internal investigation or analyzing its data to prevent further infringement. (Pl.'s Post-Trial Mem. at 34-35.) On this point, it is clear that eBay did not conduct a separate investigation into the extent of counterfeit Tiffany jewelry on its website. (Tr. 682:24-684:15.) eBay did not analyze its data, or research and evaluate the number of "Tiffany" listings removed from its website. (Tr. 594:13-594:17.) Nor did it track the number of sellers suspended because they had posted infringing listings. (Tr. 597:10-598:10, 631:4-631:9; Pl.'s Ex. 1136.)

Nevertheless, the fact that eBay did not take these additional steps is immaterial, because without specific knowledge or reason to know, eBay is under no affirmative duty to ferret out potential infringement. Willful blindness requires "more than mere negligence or mistake" and does not lie unless the defendant knew of a high probability of illegal conduct and purposefully contrived to avoid learning of it, for example, by failing to inquire further out of fear of the result of the inquiry. *Nike, Inc. v. Variety Wholesalers, Inc.*, 274 F. Supp. 2d 1352, 1369-70 (S.D. Ga. 2003). Put simply, it cannot be said that eBay purposefully contrived to avoid learning of counterfeiting on its website, or that eBay failed to investigate once it learned of such counterfeiting. To the contrary, in the face of such general awareness, eBay took significant steps to prevent counterfeiting by developing the VeRO Program, which seeks to remove individually infringing listings. Moreover, the record reveals that when eBay became aware, through its VeRO Program, of Tiffany's good-faith belief that a listing was infringing, it investigated and removed that listing from its website.

Were Tiffany to prevail in its argument that eBay was willfully blind, the "reason to know" standard of the *Inwood* test would be inflated into an affirmative duty to take precautions against potential counterfeiters, even when eBay had no specific knowledge of the individual counterfeiters. The law explicitly precludes such an expansion of the "reason to know" standard. *See Hard Rock Café*, 955 F.2d at 1149 (holding that there is "no affirmative duty to take precautions against the sale of counterfeits. Although the 'reason to know' part of the standard for contributory liability requires [defendant] to understand what a reasonably prudent person would

understand, it does not impose any duty to seek out and prevent violations."); *Hendrickson*, 165 F. Supp. 2d at 1095 (holding that "no law currently imposes an affirmative duty on companies such as eBay to engage in such monitoring" of their websites, and that "eBay has no affirmative duty to monitor its own website for potential trade dress violation"); *Lockheed Martin*, 175 F.R.D. at 646.

In short, Tiffany has failed to establish by a preponderance of the evidence that eBay deliberately ignored counterfeiting activity of which it was aware. Rather, the evidence establishes that when eBay had general knowledge of counterfeiting on its website, it took reasonable steps to investigate and stop that wrongdoing through general anti-fraud measures. Indeed, eBay has invested significant financial, technological, and personnel resources in developing tools to ferret out and eliminate counterfeit goods from its website. Accordingly, the Court concludes that eBay was not willfully blind to the evidence of counterfeiting on its website.

5. Continues To Supply

The Court has concluded that the generalized allegations of trademark infringement described above are insufficient to impute either knowledge or a reason to know of trademark infringement to eBay. However, the situation is distinct with respect to the individual sellers against whom Tiffany filed NOCIs. Tiffany argues that the filing of a NOCI provided eBay with actual or constructive knowledge of Tiffany's good-faith belief that an item was counterfeit

or otherwise infringing.[38] Nevertheless, even assuming *arguendo* that the filing of a NOCI provided eBay with knowledge or reason to know of infringement by particular sellers on its website, the test under *Inwood* is not merely that eBay had knowledge, but instead whether eBay "continue[d] to supply" its product to known infringers. *Inwood*, 456 U.S. at 854. The *Inwood* test thus directs the Court to consider what action eBay took upon receiving such notice of infringement through Tiffany's NOCIs.

When Tiffany filed a NOCI, eBay's practice was to promptly remove the challenged listing from its website. In addition to removing the listing, eBay also warned sellers and buyers, cancelled all fees associated with the listing, and directed buyers not to consummate the sale of the listed item. Accordingly, the Court concludes that Tiffany has failed to prove that eBay continued to supply its services in instances where it knew or had reason to know of infringement.

a. Standard

The *Inwood* test requires a plaintiff to prove that the defendant continued to supply its product to an infringer once it had knowledge of the infringement. *Inwood*, 456 U.S. at 854. Courts have routinely declined to impose liability where a defendant, once it possesses sufficient knowledge, takes "appropriate steps" to cut off the supply of its product or service to the infringer. *See, e.g., Procter & Gamble v. Haugen*, 317 F.3d 1121, 1129-30 (10th Cir.

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[38] Of course, a NOCI was not a notice of actual infringement, but instead, was a notice of Tiffany's good-faith belief that a particular item or listing was infringing.

2003) (no contributory liability where the defendant, upon learning of activities of individuals who allegedly were directly liable under the Lanham Act, no longer continued to supply its product to those individuals); *AT&T v. Winback & Conserve Program*, 42 F.3d 1421, 1433 n.14 (3d Cir. 1994) (contributory liability could not be imposed where the defendant "took appropriate steps" "in the instances where [plaintiff] brought objectionable acts . . . to the attention of [defendant]") (internal citation and quotation marks omitted).

b. Analysis

Tiffany argues that eBay continued to serve individual infringers by failing to take adequate steps in response to the filing of NOCIs by Tiffany. (Pl.'s Post-Trial Mem. at 36.) The Court disagrees. As discussed in the Findings of Fact, *supra*, the record is clear that once Tiffany notified eBay of a listing it believed to contain infringing merchandise, eBay promptly removed that listing from its website through its VeRO Program. Tiffany's attempt to prove that eBay failed to remove listings after they were reported was unsupported by the evidence. *See supra* at n.21. In any event, Tiffany's assertions were further contradicted at trial by Tiffany's concessions that eBay always acted in good faith and never refused to remove a listing after a NOCI had been filed. (Tr. 112:2-7, 146:10-14, 266:2-267:2, 814:18-22.) Therefore, Tiffany has failed to establish by a preponderance of the evidence that there were any instances where eBay was given specific notice of a potential infringement and failed to act.

Tiffany further argues that eBay allowed repeat offenders to sell counterfeit goods even after the filing

of a NOCI. (Cacucciolo Decl. ¶¶ 42, 28, Zalewska Decl. ¶¶ 44, 59, 88.) Specifically, Tiffany identified several instances where a seller whose listings Tiffany had reported reappeared on the website using the same user name. (Cacucciolo Decl. ¶¶ 41-42; Zalewska Decl. ¶¶ 89-93; 149:25-150:3.) In addition, Tiffany purports to have identified 178 individuals, operating under different eBay user names, whom Tiffany reported on multiple occasions. In essence, Tiffany equates the filing of a NOCI with proof of counterfeiting and asserts that eBay's refusal to automatically and permanently suspend sellers upon the filing of a NOCI constitutes *per se* contributory trademark infringement under *Inwood*. Once again, the Court disagrees.

As noted above, a NOCI is not a determination of counterfeiting, but instead, is a good-faith assertion on the part of a rights holder that an item is counterfeit or otherwise infringing. This distinction is material because without knowledge of actual counterfeiting, Tiffany cannot demonstrate that eBay should have permanently suspended a seller. The evidence is clear that when eBay was informed that Tiffany had a good-faith belief that a seller was trafficking in counterfeit goods, eBay removed the listing. While Tiffany also requested that every such seller be permanently suspended (Cacucciolo Decl. ¶¶ 9, 24, 25, 48), eBay, as a rule, declined to automatically or permanently suspend a seller on the filings of a first, or even a second, NOCI. The Court finds that this policy was appropriate. As noted in the Findings of Fact, given the consequences of an eBay suspension, eBay reasonably proceeded with caution in suspending sellers based on NOCIs because NOCIs were a good faith determination of infringement, not an exact finding of infringement.

Tiffany's own evidence supports the Court's conclusion that eBay's policy was an "appropriate step" in cutting off the supply of its services to infringers. *AT&T*, 42 F.3d at 1433 n.14. While Tiffany identified close to 200 "repeat offenders," Tiffany does not contest that once Tiffany sent in a NOCI for these users, eBay pulled the listing. Furthermore, with only a few exceptions, the users who reappeared on the eBay website appeared three or fewer times, frequently within a very short time span (*e.g.*, within one week or even one day). Accordingly, Tiffany has failed to establish by a preponderance of the evidence that eBay failed to take appropriate action against these sellers upon receiving notice of infringing activity.

The law supports eBay's assertions that its practices in suspending sellers are appropriate. In *Winback* and *Haugen*, the courts based their findings that there could be no contributory liability on the fact that the defendants, while not having severed all ties with the alleged direct infringers, made other efforts to remediate the infringing conduct. *See Winback*, 42 F.3d at 1433 n.14; *Haugen*, 317 F.3d at 1129-30. This discretion and flexibility is particularly important given that a NOCI attests only to Tiffany's good-faith belief that an item is infringing. Indeed, Tiffany has occasionally been wrong and later requested that listings be reinstated.[39] (*See, e.g.*, Def.'s Ex. 34; 270, 422.)

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[39] In addition, it is certainly possible that other listings have been erroneously reported. Tiffany refuses to authenticate items without proof that the items were purchased from a Tiffany store. Several sellers have complained to Tiffany that their items were inappropriately reported, only to have Tif-

[Footnote continued on next page]

Finally, Tiffany has argued that regardless of what action eBay took upon receiving a NOCI, eBay should nevertheless be held liable for contributory trademark infringement because eBay's efforts to remedy trademark infringement on its website through the VeRO Program were legally insufficient. (Pl.'s Post-Trial Mem. at 34.) Specifically, Tiffany submits that VeRO was an inadequate tool because Tiffany could not observe and report an item any earlier than the general public. Tiffany additionally contends that "there [were] simply too many listings of 'Tiffany' silver jewelry for Tiffany to be able to review them all" and that sales may have been consummated before a NOCI was filed and the listing taken down. (*Id.* at 37.) Finally, Tiffany objects to VeRO on the grounds that the program required Tiffany or its agents to devote substantial time and resources to determine whether or not the listing was counterfeit. (Tr. 230:3-230:23; Zalewska Decl. ¶ 47 n.4.) The Court rejects this argument.

First, the evidence does not demonstrate that anything about the VeRO Program made it unreasonably burdensome to capture the counterfeit listings on eBay. Instead, the evidence shows that Tiffany's commitment to reporting infringing listings through the VeRO Program has been sporadic and relatively meager. *See supra* at Section II.G.2.

Second, while the Court is sympathetic to Tiffany's frustrations in this regard, the fact remains that rights holders bear the principal responsibility

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fany refuse to offer any meaningful way of validating their legitimacy. (Def.'s Ex. 157; 167; 175.)

to police their trademarks. See *MDT Corp. v. New York Stock Exch.*, 858 F. Supp. 1028, 1034 (C.D. Cal. 1994) ("The owner of a trade name must do its own police work."); *see also Hard Rock Café*, 955 F.2d at 1149 (defendants are not required "to be more dutiful guardians of [trademark plaintiffs'] commercial interests). In effect, Tiffany's contributory trademark infringement argument rests on the notion that because eBay was able to screen out potentially counterfeit Tiffany listings more cheaply, quickly, and effectively than Tiffany, the burden to police the Tiffany trademark should have shifted to eBay. Certainly, the evidence adduced at trial failed to prove that eBay was a cheaper cost avoider than Tiffany with respect to policing its marks.[40] But more importantly, even if it were true that eBay is best situated to staunch the tide of trademark infringement to which Tiffany and countless other rights owners are subjected, that is not the law. *See* 2 McCarthy § 11:91 ("[T]he corporate owners of trademarks have a duty to protect and preserve the corporation's trademark assets though vigilant policing and appropriate acts of enforcement."); *MDT Corp.*, 858 F. Supp. at 1034; *see also Inwood*, 456 U.S. at 854 n.13 (holding that imposing liability where manufacturers could reasonably anticipate trademark violations is a "watered down" and incorrect standard).

Under these circumstances, the Court concludes that Tiffany has failed to prove that eBay continued to supply its service to those whom it knew or had reason to know were engaging in infringement, and that

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40 *Cf.* Guido Calabresi, The Costs of Accidents: A Legal and Economic Analysis (1970).

eBay took appropriate steps to cease making its website available in those instances where Tiffany brought objectionable conduct to its attention.

* * * *

In sum, the Court concludes that (1) eBay exerted sufficient control over its website such that the *Inwood* test applies; (2) under the *Inwood* test, the appropriate measure is whether eBay knew or had reason to know of, not whether eBay could reasonably anticipate, the infringement; (3) generalized knowledge is insufficient to impute knowledge of any and all instances of infringing activity to eBay; (4) Tiffany's demand letters, the Buying Programs, and the volume of NOCI reporting provided only generalized knowledge to eBay, which is insufficient to establish a duty to act; (5) eBay was not willfully blind to infringement; (6) when eBay had knowledge of specific infringing listings, eBay promptly terminated those listings; (7) when eBay had knowledge that a seller was repeatedly engaging in counterfeit activity, eBay's pattern was to suspend that seller and then take further corrective action; and finally, (8) to the extent Tiffany challenges the VeRO Program on the grounds that it is too time-consuming, the burden of policing the Tiffany mark appropriately rests with Tiffany.

E. Remaining Causes of Action

Although Tiffany's contributory trademark infringement claims dominated the trial testimony and the post-trial submissions, Tiffany nevertheless maintains a number of other claims under the Lanham Act and state law. For the reasons set forth below, Tiffany has also failed to establish by a

preponderance of the evidence that it is entitled to relief under these legal theories.

1. Unfair Competition under Federal and Common Law

Tiffany alleges unfair competition, infringement, and the use of false descriptions and representations under Section 43(a) of the Lanham Act and New York common law. (*See* Am. Compl. ¶¶ 46, 47, 50, 51.) Under Lanham Act § 43 (a)(1)(A), to show unfair competition and false designation of origin, Tiffany must prove "(i) the existence of a valid mark, and (ii) that the defendant's actions are likely to confuse the buying public, that is, 'an appreciable number of ordinarily prudent purchasers.'" *Twentieth Century Fox*, 15 F. Supp. 2d at 20 (quoting *E.G.L. Gem Lab Ltd. v. Gem Quality Institute, Inc.*, 90 F. Supp. 2d 277, 292 (S.D.N.Y. 2000)). Tiffany's Section 43(a) claims are governed by the same legal analysis as its federal infringement claims. *See, e.g.*, *Starbucks Corp. v. Wolfe's Borough Coffee, Inc.*, No. 01 Civ. 5981 (LTS) (THK), 2004 WL 2158120, at *4 (S.D.N.Y. Sept. 28, 2004) (treating Lanham Act infringement and Section 43(a) claims jointly). Accordingly, because Tiffany's contributory and direct infringement claims fail, so too must its Section 43(a) claims.

Similarly, the elements required to prevail on trademark infringement and unfair competition claims under New York common law mirror the Lanham Act claims for trademark infringement and unfair competition. *Standard & Poor's*, 683 F.2d at 708. Thus, "to prevail on a claim for unfair competition under New York common law, 'a plaintiff must couple its evidence supporting liability under the Lanham Act with *additional*

evidence demonstrating the defendant's bad faith.'" *Omicron Capital, LLC v. Omicron Capital, LLC*, 433 F. Supp. 2d 382, 395 (S.D.N.Y. 2006) (citations omitted) (emphasis added); *Lorillard*, 378 F. Supp. 2d at 456 (emphasis added); *see also Saratoga Vichy Spring Co., Inc. v. Lehman*, 625 F.2d 1037, 1044 (2d Cir. 1980) ("The essence of an unfair competition claim under New York law is that the defendant has misappropriated the labors and expenditures of another. Central to this notion is some element of bad faith.") (citations omitted).

Since Tiffany has failed to prove its Lanham Act claims, it follows *a fortiori* that it has failed to prove its common law claims as well. Moreover, insofar as eBay routinely removed listings that Tiffany reported to it and took numerous additional measures to reduce the number of listings offering potentially infringing Tiffany items, Tiffany has failed to adduce either the requisite showing of infringement or any additional evidence of bad faith by eBay here.

2. False Advertising Under Lanham Act Section 43(a)(1)(B)

Tiffany challenges certain advertising practices in which eBay previously engaged, specifically: (i) references to Tiffany merchandise in promotional features on the eBay home page and Jewelry & Watches page; and (ii) purchases of the "Tiffany" keyword so as to indicate the availability of Tiffany merchandise on eBay via "sponsored links" on Internet search engines such as Google and Yahoo!.[41] Tif-

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[41] Tiffany brings false advertising claims exclusively under federal, not state, law.

fany argues that by using the TIFFANY Marks on its website and in sponsored links, eBay violated Section 43(a)(1)(B) of the Lanham Act. (Pl.'s Pr. Findings 29-30.)

The Lanham Act expressly forbids false or misleading descriptions or representations of fact concerning "the nature, characteristics, qualities, or geographic origin of . . . goods, services, or commercial activities." 15 U.S.C. § 1125(a)(1)(B).[42] To prevail on a false advertising claim under the Lanham Act, "a plaintiff must show that either: 1) the challenged advertisement is literally false, or 2) while the advertisement is literally true it is nevertheless likely to mislead or confuse consumers." *Johnson & Johnson-Merck Consumer Pharm. Co. v. Smithkline Beecham Corp.*, 960 F.2d 294, 297 (2d Cir. 1992); *see also Nat'l Basketball Ass'n v. Motorola, Inc.*, 105 F.3d 841, 855 (2d Cir. 1997); *McNeilPPC, Inc. v. Pfizer Inc.*, 351 F. Supp. 2d 226, 248 (S.D.N.Y. 2005). Plaintiffs may also show that the claim is false by

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[42] The statute provides, in pertinent part, that:

> Any person who, on or in connection with any goods or services, or any container for goods, uses in commerce any word, term, name, symbol, or device, or any combination thereof, or any false designation of origin, false or misleading description of fact, or false or misleading representation of fact, which . . . in commercial advertising or promotion, misrepresents the nature, characteristics, qualities, or geographic origin of his or her or another person's goods, services, or commercial activities, shall be liable in a civil action by any person who believes that he or she is or is likely to be damaged by such act.

15 U.S.C. § 1125(a)(1)(B).

necessary implication. *Time Warner Cable, Inc. v. DIRECTV, Inc.*, 497 F.3d 144, 158 (2d Cir. 2007).

"Whereas plaintiffs seeking to establish a literal falsehood must generally show the substance of what is conveyed, . . . a district court must rely on extrinsic evidence [of consumer deception or confusion] to support a finding of an implicitly false message." *Time Warner Cable*, 497 F.3d at 154 (internal quotation omitted); *Johnson & Johnson-Merck*, 960 F.2d at 297 ("[P]laintiff must demonstrate, by extrinsic evidence, that the challenged commercials tend to mislead or confuse consumers."). "It is not for the judge to determine, based solely upon his or her own intuitive reaction, whether the advertisement is deceptive." *Johnson & Johnson-Merck*, 960 F.2d at 297 (affirming final judgment after bench trial). Rather, "the question in such cases is — what does the person to whom the advertisement is addressed find to be the message?" *Id.*

Because authentic Tiffany merchandise is sold on eBay's website, Tiffany has failed to prove that eBay's challenged advertising practices are literally false. Tiffany argues that while the advertising might be literally true, it is nevertheless likely to mislead or confuse consumers into believing that any given piece of silver jewelry labeled "Tiffany" is genuine, when in fact, a consumer is more likely to receive counterfeit silver jewelry than authentic silver jewelry. (*See* Pl.'s Pr. Findings at 30.) Tiffany's false advertising claims focus on the same practices that Tiffany's direct trademark infringement claims relied on — namely, the use of the Tiffany mark on the eBay website and the purchase of the TIFFANY Marks in generating

sponsored links — and are unsuccessful for the same reasons.

First, eBay's use of the term "Tiffany" in advertising is protected, nominative fair use. Second, to the extent that Tiffany argues that eBay's advertising is impliedly false, that argument rests on Tiffany's assertion that eBay knew that jewelry sold on its website was counterfeit. While eBay certainly had generalized knowledge that Tiffany products sold on eBay were often counterfeit, Tiffany has not proven that eBay had specific knowledge as to the illicit nature of individual listings. Finally, to the extent that the advertising was false, the falsity was the responsibility of third party sellers, not eBay. *See Merck & Co.*, 425 F. Supp. 2d at 415 (holding that "there is nothing improper with defendants' purchase of sponsored links" when "defendants actually sell [plaintiff's products] . . . on their website"). In short, Tiffany failed to establish that eBay's ads were likely to mislead consumers because authentic items were offered for sale, and inauthentic items were only listed on eBay due to the illicit acts of third parties. Having concluded that eBay did not continue to supply its service to infringers, it cannot be said that eBay was misleading customers when eBay was diligently removing listings from the website that were purportedly counterfeit.

Finally, the Court notes that in analogous circumstances, courts have rejected similar claims asserted against eBay. *See, e.g.*, *Gentry v. eBay*, 99 Cal. App. 4th 816, 834, 836 (Cal. Ct. App. 2002) (rejecting claim challenging, *inter alia,* eBay's promotional activities because that claim "would place liability on eBay for simply compiling false and/or misleading content created by the individual de-

fendants and other coconspirators" and hence "eBay's liability would be based upon the misrepresentations of the individual defendants").[43]

3. Trademark Dilution Under Federal and Common Law

As yet another variation on its contributory infringement claim, Tiffany also alleges that eBay's activities constitute trademark dilution under the Lanham Act, 15 U.S.C. § 1125(c), as well as under New York General Business Law § 360-1. (Am. Compl. ¶¶ 52-55.) Specifically, Tiffany argues that eBay is liable for dilution by blurring because eBay uses the Tiffany name to advertise and sell products that eBay knows to be counterfeit, thus resulting in the "'diminution of the capacity of [Plaintiff's] mark [] to serve as a unique identifier of its products and services.'" (Pl.'s Pr. Findings at 38 (quoting *New York Stock Exch., Inc. v. New York, New York Hotel, LLC*, 293 F.3d 550, 557 (2d Cir. 2002).) Tiffany also alleges that eBay is liable for dilution by tarnishment because eBay's use of the TIFFANY Marks harms Tiffany's reputation. (Pl.'s Pr. Findings at 38.) Tiffany submits that by linking Tiffany's marks to products of shoddy quality, "the public will associate, and continue to associate, the lack of quality or lack of prestige in the goods sold on eBay with genuine Tiffany goods." (Pl.'s Pr. Findings at 38-39.) The Court concludes that Tiffany has failed to prove that eBay is liable for trademark dilution and that even assuming *ar-*

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[43] While *Gentry* arose under California state law and was decided in part based on the Communications Decency Act, 47 U.S.C. § 230, the underlying reasoning is instructive.

guendo that eBay could be liable for dilution, eBay's use of the TIFFANY Marks is a protected, nominative fair use.

a. Legal Standard

The legal theory of dilution is grounded in the notion that a trademark can lose its "ability . . . to clearly and unmistakably distinguish one source through unauthorized use." *Hormel Foods Corp. v. Jim Henson Prods.*, 73 F.3d 497, 506 (2d Cir. 1996) (internal quotation omitted). Anti-dilution statutes protect against the "gradual whittling away of a firm's distinctive trade-mark or name." *Allied Maintenance Corp. v. Allied Mechanical Trades, Inc.*, 42 N.Y.2d 538, 544 (1977). Trademark dilution is a broader, and more subtle, principle than classic trademark infringement.[44]

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[44] One of the key distinctions between trademark infringement and trademark dilution is that the anti-dilution statutes provide more expansive protection than trademark infringement claims. In a classic trademark infringement claim, the owner of a mark may bar another from using a mark in a manner that creates a likelihood of consumer confusion as to the source of goods. *See* 15 U.S.C. § 1125(a). Thus, "as a general proposition, under traditional trademark law, a mark is enforceable within the area of commerce in which the mark has been established. However, its establishment in one segment of commerce generally does not prevent others from using the same or a similar mark in a different, non-competing area" because "ordinarily, little confusion will result when the junior use is in an area of commerce that is outside the senior owner's area." *TCPIP Holding*, 244 F.3d at 94-95. By contrast, federal anti-dilution law permits the owner of a qualified, famous mark to enjoin junior uses throughout commerce, regardless of the absence of competition or confusion. *See* 15 U.S.C. § 1125(c)(1). Specifically, this means that trademark dilution can be found even when the defendant's goods are in a wholly different area of

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As a preliminary matter, the Court must consider which federal anti-dilution statute applies to this case. When Tiffany filed its Amended Complaint on July 14, 2004, it did so under the Federal Trademark Dilution Act ("FTDA"), 15 U.S.C. § 1125(c) (2004). After the Amended Complaint had been filed, Congress enacted the Trademark Dilution Revision Act of 2006 ("TDRA"), Pub. L. No. 109-312, 120 Stat. 1730, 1731 (Oct. 6, 2006), which entitles the owner of a famous, distinctive mark to an injunction against the user of a mark that is "likely to cause dilution" of the famous mark. 15 U.S.C. § 1125(c)(1). Congress thus overruled the Supreme Court's holding in *Moseley v. V Secret Catalogue, Inc.*, 537 U.S. 418, 433 (2003), that the FTDA requires a showing of "actual dilution," and reasserted the less stringent "likelihood of dilution" standard to dilution cases.[45]

The Second Circuit has held that the TDRA applies retroactively to a claim filed before the TDRA went into effect to the extent that the plaintiff seeks injunctive relief. *See Starbucks Corp. v. Wolfe's Borough Coffee, Inc.*, 477 F.3d 765, 766 (2d Cir. 2007).

[Footnote continued from previous page]
commerce than plaintiff's goods, and thus do not cause any likelihood of confusion. *See TCPIP Holding Co.*, 244 F.3d at 95.

[45] In addition, the TDRA required that the defendant show "use in commerce," rather than the FTDA's "commercial use of the mark in commerce." *See Louis Vuitton Malletier v. Dooney & Bourke, Inc.*, 454 F.3d 108, 118 (2d Cir. 2006) (quoting *Savin Corp.*, 391 F.3d at 448-49).

Because Tiffany seeks injunctive relief, the TDRA is applicable to its claims.[46]

The TDRA provides that:

> Subject to the principles of equity, the owner of a famous mark that is distinctive, inherently or through acquired distinctiveness, shall be entitled to an injunction against another person who, at any time after the owner's mark has become famous, commences use of a mark or trade name in commerce that is likely to cause dilution by blurring or dilution by tarnishment of the famous mark, regardless of the presence or absence of actual or likely confusion, of competition, or of actual economic injury.

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[46] To the extent that Tiffany seeks monetary damages on its dilution claim, however, the FTDA's standard of "actual dilution" continues to apply. The TDRA includes a clear date restriction that authorizes the application of the "likelihood of dilution" standard as a basis for recovering damages to civil actions where the diluting mark or trade name was first introduced in commerce after October 6, 2006. *See* 15 U.S.C. § 1125(c)(5). In short, Congress has unambiguously stated that the TDRA does not apply retroactively to the extent that plaintiffs seek damages. *See Louis Vuitton Malletier v. Dooney & Bourke, Inc.*, 500 F. Supp. 2d 276, 283 (S.D.N.Y. 2007). Accordingly, under the FTDA, in order to obtain monetary damages, Tiffany would still have to show actual dilution, in addition to the wilfulness requirement retained by the TDRA, for claims of monetary relief. *See Verilux, Inc. v. Hahn*, No. 3:05cv254 (PCD), 2007 U.S. Dist. LEXIS 58507, at *36-37 (D. Conn. 2007); *Dan-Foam A/S & TempurPedic, Inc. v. Brand Named Beds, LLC*, 500 F. Supp. 2d 296, 306 (S.D.N.Y. 2007).

15 U.S.C. § 1125(c)(1). Under the TDRA, therefore, to establish a violation of the Act, a plaintiff must show that: (1) its mark is famous; (2) the defendant is making use of the mark in commerce; (3) the defendant's use began after the mark became famous; and (4) the defendant's use is likely to cause dilution by tarnishment or dilution by blurring.

New York's dilution cause of action is substantially similar. Under New York General Business Law § 360-l, "[l]ikelihood of injury to business reputation or of dilution of the distinctive quality of a mark or trade name shall be a ground for injunctive relief in cases of infringement of a mark registered or not registered or in cases of unfair competition, notwithstanding the absence of competition between the parties or the absence of confusion as to the source of goods or services." N.Y. Gen. Bus. L. § 360-l (McKinney's 2007).

Prior to the enactment of the TDRA, state and federal dilution claims were viewed as analogous. *See Louis Vuitton Malletier*, 454 F.3d at 119 (applying same standards to federal and New York dilution standards); *Nabisco, Inc. v. PF Brands, Inc.*, 191 F.3d 208, 215 n.1 (2d Cir. 1999) (stating that federal and New York dilution statutes are "analogous"); *NBA Props. v. Untertainment Records LLC*, No. 99 Civ. 2933 (HB), 1999 U.S. Dist. LEXIS 7780, at *21 (S.D.N.Y. May 26, 1999) (stating that FTDA "mirrors" New York statute). While the Second Circuit has cautioned district courts that "it is not clear that the [New York] statute is coextensive with the [TDRA]," *Starbucks Corp.*, 477 F.3d at 766, both the federal and the state statutes require that plaintiffs show a likelihood of dilution, rather than actual dilution. Moreover, the state and

federal statutes both require that plaintiffs show that defendants have used the mark in commerce. *See FragranceNet.com*, 493 F. Supp. 2d at 548 (holding that "the 'use' requirement exists for . . . proposed state law claims and is analyzed in the same manner as under the federal claims"). Thus, while the two statutes may not be identical, they are substantively similar and may be analyzed together.

b. Analysis

The Court concludes that the first and third elements of trademark dilution have been met. With respect to the first, it is abundantly clear that the TIFFANY Marks at issue in this litigation are famous; indeed, eBay has not disputed the point. *See also* 4 McCarthy § 24:87 ("Clearly, nationally famous marks like . . . TIFFANY . . . have the strong, distinctive quality of fame which is deserving of protection from dilution." (citing *Tiffany & Co. v. Boston Club, Inc.*, 231 F. Supp. 836, 842-43 (D. Mass. 1964)). With respect to the third element, it is clear from the record and undisputed by the parties that eBay began its use of the mark well after Tiffany's marks became famous.

Nevertheless, even assuming *arguendo* that Tiffany can establish the third element of trademark dilution – eBay's use of the TIFFANY Marks in commerce – the Court finds that Tiffany has failed to show that eBay used the marks in a way that was likely to cause either dilution by blurring or dilution by tarnishment. Moreover, the Court further finds that eBay's use of the TIFFANY Marks on its website and through its purchase of sponsored links was protected by the statutory defense of nominative fair use.

i. Dilution by Blurring

Dilution by blurring is defined in the TDRA as an "association arising from the similarity between a mark or trade name and a famous mark that impairs the distinctiveness of the famous mark." 15 U.S.C. § 1125(c)(2)(B). Blurring occurs "where the defendant uses or modifies the plaintiff's trademark to identify the defendant's goods and services, raising the possibility that the mark will lose its ability to serve as a unique identifier of the plaintiff's product." *Deere & Co.*, 41 F.3d 39, 43 (2d Cir. 1994) (emphasis omitted); *accord N.Y. Stock Exch.*, 293 F.3d at 558; *see also Nabisco*, 191 F.3d at 215.

Trademark dilution claims usually arise where a defendant has used the plaintiff's trademark to directly identify a different product of the defendant. Thus, dilution may occur "where the defendant uses or modifies the plaintiffs trademark to identify the defendant's goods and services." *Deere & Co.*, 41 F.3d at 43. Such use of the plaintiff's trademark may "dilute" or weaken the ability of the famous mark to "clearly identify and distinguish only one source." 4 McCarthy § 24:67. For example, hypothetical examples of dilution by blurring might include Dupont shoes, Buick aspirin, Kodak pianos, or Bulova gowns. *See Mead Data Cent., Inc. v. Toyota Motor Sales, U.S.A., Inc.*, 875 F.2d 1026, 1031 (2d Cir. 1989). Indeed, the "primary application of the Act is to cases involving widely different goods (*i.e.*, Kodak pianos and Kodak film)." *I.P. Lund Trading ApS v. Kohler Co.*, 163 F.3d 27, 49 (1st Cir. 1998). As the First Circuit noted, "[n]o one would confuse Kodak pianos with Kodak film, but the use of the name on the piano could dilute its effectiveness as a mark for the film." *Id.*

In this case, Tiffany has failed to demonstrate that eBay's promotional efforts were likely to dilute the identification of the TIFFANY Marks with the Tiffany brand. While eBay has certainly used the plaintiff's trademark to describe products available on the eBay website, eBay has *not* used the Tiffany mark to identify *its own* goods and services. To the contrary, eBay never used the TIFFANY Marks in an effort to create an association with its own product, but instead, used the marks directly to advertise and identify the availability of authentic Tiffany merchandise on the eBay website.

Moreover, although Tiffany may have viable trademark dilution claims against individual sellers who listed counterfeit Tiffany merchandise on eBay, *see General Motors Corp. V. Autovation Technologies Inc.*, 300 F. Supp.2d 756, 763 (E.D.Mich. 2004) (use of counterfeit trademarks on automotive parts "would likely cause blurring of the source of the goods" and thus satisfies the final element of trademark dilution) (internal quotations omitted), those claims could hardly be extended to eBay, which, as noted above, consistently removed such listings upon notice that Tiffany had a good-faith belief that the listings might be infringing.

Under these circumstances, Tiffany has not established dilution by blurring in eBay's use of the TIFFANY Marks.

ii. Dilution by Tarnishment

Dilution by tarnishment reflects an "association arising from the similarity between a mark or a trade name and a famous mark that harms the reputation of the famous mark." 15 U.S.C. § 1125(c). A trademark may be tarnished when it is "linked to products of shoddy quality, or is portrayed in an

unwholesome or unsavory context," with the result that "the public will associate the lack of quality or lack of prestige in the defendant's goods with the plaintiff's unrelated goods." *Deere & Co.*, 41 F.3d at 43. The mark may also be tarnished if it loses its ability to serve as a "wholesome identifier" of plaintiff's product. *Id*; *see also GTFM, Inc. v. Solid Clothing, Inc.*, 215 F. Supp. 2d 273, 301 (S.D.N.Y. 2002) (explaining that tarnishment is likely when a lower quality product is marketed with a substantially similar mark to that of a higher quality product of the same type); *Toys R Us, Inc. v. Feinberg*, 26 F. Supp. 2d 639, 644 (S.D.N.Y. 1998), *rev'd on other grounds*, 201 F.3d 432 (2d Cir. 1999) (noting that tarnishment can result from a mark's association with an inferior product, not just an offensive product). Indeed, "the *sine qua non* of tarnishment is a finding that the plaintiff's mark will suffer negative associations through defendant's use." *Hormel*, 73 F.3d at 507.

Nevertheless, just as the dilution by blurring claim fails because eBay has never used the TIFFANY Marks to refer to eBay's own product, the dilution by tarnishment claim also fails. Indeed, while eBay has used the Tiffany trademarks in promotional efforts and in advertising, the Tiffany trademarks have always been associated with products that individual third party sellers have characterized as Tiffany items. Any identification of a different product was the result of third-party eBay-users offering for sale counterfeit Tiffany items. The evidence established that when eBay obtained knowledge of listings offering such items, it removed them. Indeed, having concluded that when eBay has knowledge or a reason to know of infringement on its website, it takes appropriate steps to discontinue

supplying its website to the infringer, it would defy logic to nevertheless conclude that eBay is tarnishing Tiffany's mark. Under these circumstances, Tiffany has failed to demonstrate dilution by tarnishment in eBay's use of the TIFFANY Marks.

iii. Defenses to Dilution

Even assuming *arguendo* that Tiffany had established the elements of its dilution claim, the TDRA excludes several forms of trademark use from dilution claims. These exclusions include "[a]ny fair use, including a nominative or descriptive fair use, or facilitation of such fair use, of a famous mark by another person other than as a designation of source for the person's own goods or services, including use in connection with advertising or promotion that permits consumers to compare goods or services." 15 U.S.C. § 1125(c)(3)(A)(i). In *Playboy Enterprises*, the Ninth Circuit addressed the nominative fair use exception to the anti-dilution statute, and held that "[u]ses that do not create an improper association between a mark and a new product but merely identify the trademark holder's products should be excepted from the reach of the anti-dilution statute. Such uses cause no harm." 279 F.3d at 806; *see also Toni & Guy (USA) Ltd. v. Nature's Therapy, Inc.*, No. 03 CV 2420 (RMB), 2006 U.S. Dist. LEXIS 25291, at *40 (S.D.N.Y. May 1, 2006) (declining to impose liability for trademark dilution where defendant's use of plaintiff's mark was comparative advertisement and posed no risk of diluting selling power of the competitor's mark, but instead allowed consumers to compare relative merits of competing products).

Under the same principle, the Court holds that eBay's use of the TIFFANY Marks falls into the anti-

dilution statute's nominative fair use exception. First, as described earlier in this decision, eBay's promotional use of the TIFFANY Marks is protected, nominative fair use. Second, eBay's use of the TIFFANY Marks does not designate the source for eBay's goods; instead, it simply indicates that products bearing the TIFFANY Mark are available through eBay. Finally, while eBay's use of the TIFFANY Marks is not in connection with comparative advertising, it is in connection with advertising of the availability of products through the eBay website, and thus allows consumers to compare prices and the availability of specific Tiffany designs. Accordingly, the Court finds that even if Tiffany had made out a viable claim for trademark dilution, it would be barred by the nominative fair use exception recognized in the anti-dilution statute.

4. Contributory Dilution

In addition to alleging that eBay has engaged in direct trademark dilution, Tiffany also urges the Court to find that eBay has contributorily diluted its trademark. (Pl.'s Pr. Findings at 39.) "The one court to recognize the contributory dilution cause of action defined the claim as encouraging others to dilute." *Lockheed Martin*, 194 F.3d at 986 (citing *Kegan v. Apple Computer Inc.*, 42 U.S.P.Q.2D (BNA) 1053, 1062 (N.D. Ill. 1996)). Contributory dilution has not been recognized in the Second Circuit Court of Appeals. Indeed, even the one district court in this circuit that mentioned the doctrine acknowledged that it is somewhat "novel." *Steinway, Inc. v. Ashley*, No. 01 Civ. 9703 (GEL), 2002 U.S. Dist. LEXIS 1372, at *7 (S.D.N.Y. Jan. 29, 2002) (denying motion to dismiss on contributory infringement claim).

However, even assuming *arguendo* that a contributory dilution claim exists, it would fail for the reasons set forth above with respect to Tiffany's contributory infringement claims. *See id.* (stating that claim for contributory dilution is "novel" and that claim would be analogous to contributory infringement); *Lockheed Martin*, 194 F.3d at 986 (recognizing that "no appellate court or statute has yet established the cause of action" for contributory dilution and that it would require proof of "encouraging others to dilute"); *Lockheed Martin*, 175 F.R.D. at 646 (noting that "[i]f the standard is this narrow for contributory infringement. . . , the standard should certainly be at least as narrow for contributory dilution, which is grounded in a much more subtle and evasive concept of injury to a mark") (internal quotation marks and citation omitted).

Having found that Tiffany has not carried its burden with respect to contributory trademark infringement, the Court likewise concludes that Tiffany's contributory dilution claim must fail. Put simply, Tiffany has failed to demonstrate that eBay knowingly encouraged others to dilute Tiffany's trademarks. Rather, to the extent that eBay may have possessed general knowledge of infringement and dilution by sellers on its website, eBay did not possess knowledge or a reason to know of specific instances of trademark infringement or dilution as required under the law. *See Inwood*, 456 U.S. at 854. Moreover, in those instances in which the filing of a NOCI provided eBay with a reason to know of possible infringement or dilution, it is clear that eBay took immediate and affirmative steps to remove the challenged listings from its website. Thus, it cannot be argued that eBay was "contributo-

rially responsible for any harm done as a result of the deceit" by third party sellers. *Id.*

* * * *

In sum, the Court concludes that Tiffany has failed to meet its burden in proving its claims. The Court makes no finding as to whether Tiffany might prevail were it to sue individual eBay sellers on any of these legal theories, or as to whether criminal prosecutions might be initiated against individual sellers. Nevertheless, given Tiffany's choice to sue eBay, rather than individual sellers, and this Court's conclusion that eBay does not continue to supply its services to those whom it knows or has reason to know are infringing Tiffany's trademarks, Tiffany's claims against eBay must fail.

IV. CONCLUSION

The rapid development of the Internet and websites like eBay have created new ways for sellers and buyers to connect to each other and to expand their businesses beyond geographical limits. These new markets have also, however, given counterfeiters new opportunities to expand their reach. The Court is not unsympathetic to Tiffany and other rights owners who have invested enormous resources in developing their brands, only to see them illicitly and efficiently exploited by others on the Internet. Nevertheless, the law is clear: it is the trademark owner's burden to police its mark, and companies like eBay cannot be held liable for trademark infringement based solely on their generalized knowledge that trademark infringement might be occurring on their websites.

For the reasons stated above, the Court finds that plaintiff has failed to satisfy its burden on all of its claims. The Clerk of the Court shall enter judgement for defendant and close this case.

SO ORDERED.

/s/
RICHARD J. SULLIVAN
United States District Judge

Dated: July 14, 2008
New York, New York

* * *

Plaintiffs Tiffany (NJ) Inc. and Tiffany and Company are represented by H. Peter Haveles, Jr., Esq. and James B. Swire, Esq., (Eleanor M. Lackman, Esq., and Erik C. Walsh, Esq., *on the briefs*), Arnold & Porter LLP, 299 Park Avenue, New York, New York 10022. Defendant eBay, Inc., is represented by Bruce S. Meyer, Esq., Robert Bruce Rich, Esq., and Randi W. Singer, Esq., (Mark J. Fiore, Esq., and Lori M. Schiffer, Esq., *on the briefs*), Weil Gotshal & Manges LLP, 767 Fifth Avenue, New York, New York 10023.

APPENDIX C

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UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

TIFFANY (NJ) INC. and TIFFANY AND COMPANY, Plaintiffs, v. eBAY INC., Defendant.	04 Civ. 4607 (NRB) **FIRST AMENDED COMPLAINT** ECF Case

Plaintiffs Tiffany (NJ) Inc. and Tiffany and Company, by and through their undersigned counsel, as and for their Complaint against defendant eBay Inc., allege as follows:

Parties, Jurisdiction and Venue

1. Plaintiff Tiffany and Company ("Tiffany & Co.") is a New York corporation with its principal place of business at 727 Fifth Avenue, New York, New York 10022. Tiffany & Co. is the exclusive licensee and user of the TIFFANY, TIFFANY & CO., T & CO. and other trademarks at issue in this action.

2. Plaintiff Tiffany (NJ) Inc. ("Tiffany (NJ)") is a New Jersey corporation with its principal place of business at 15 Sylvan Way, Parsippany, New Jersey 07054. Tiffany (NJ) is the proprietor of the TIFFANY, TIFFANY & CO., and T & CO. trademarks at issue herein. Plaintiffs Tiffany & Co. and Tiffany (NJ) shall be referred to herein collectively as "Tiffany."

3. Upon information and belief, defendant eBay Inc. ("eBay") is a Delaware corporation with its principal place of business at 2145 Hamilton Avenue, San Jose, California 95125.

4. This is a civil action arising out of eBay's facilitation and participation in the counterfeiting, infringement and false advertising of the federally registered trademarks owned, licensed and/or used by Tiffany in violation of §§ 32(1), 34(d) and 43(a)(1)(A) and (B) of the Trademark Act of 1946, as amended (the "Lanham Act"), 15 U.S.C. §§ 1114(1), 1116(d) and 1125(a)(1)(A) and (B); for dilution in violation of § 43(c) of the Lanham Act, 15 U.S.C. § 1125(c); for dilution in violation of § 360-l of the New York General Business Law; and other violations of common law.

5. This Court has jurisdiction over the subject matter of this action pursuant to 28 U.S.C.

§§ 1331 and 1338 and has supplemental jurisdiction pursuant to 28 U.S.C. § 1367(a).

6. Upon information and belief, this Court has personal jurisdiction over eBay by virtue of its doing business within this State and/or its commission of tortious acts inside and outside of New York that have an effect within this State. Venue is proper in this District pursuant to 28 U.S.C. §§ 1391(b) and (c).

Plaintiffs' Famous TIFFANY Trademarks

7. TIFFANY and its variant TIFFANY & CO. are recognized as among the most famous trademarks in the United States and around the world and represent a great and valuable goodwill owned by Tiffany.

8. For over 150 years, Tiffany has achieved great renown as a purveyor of high quality goods, including specialty gift items, such as jewelry, silver, china, glassware, decorative objects, crystal, and clocks, under the trademark and trade name TIFFANY and its variant TIFFANY & CO.

9. Over the years, Tiffany has expended millions of dollars advertising and promoting said jewelry and specialty gift items and has achieved hundreds of millions of dollars in sales of said products. In the past decade, Tiffany's sales of goods bearing, or marketed under, the TIFFANY name in the United States, including the State of New York, have exceeded $12.1 billion at retail. During the same period, Tiffany & Co. has spent in excess of $580 million in advertising and promoting said products in the United States, including the State of New York.

10. Tiffany closely controls the distribution of authorized goods bearing or marketed under the TIFFANY name and all such merchandise is inspected by Tiffany quality control personnel before its release directly to approved Tiffany channels of trade, including its sales on the internet at <tiffany.com>, through TIFFANY catalogs and to its retail outlets.

11. Tiffany does not sell these goods as "close-outs" or through discount stores. Thus, any seller of a significant lot – i.e., five pieces or more – of purported "Tiffany" jewelry at a discount is almost certainly selling counterfeit merchandise.

12. TIFFANY and TIFFANY & CO. are subject to the following registrations, among many others, on the Principal Register in the United States Patent and Trademark Office:

Trademark	**Reg. No.**	**Reg. Date**	**Goods & Services**	**First Use**
TIFFANY & CO.	23,573	Sept. 5, 1893	Jewelry and Watches	1868
TIFFANY	133,063	July 6, 1920	Jewelry for Personal Wear, Not Including Watches; Precious Stones and Flat and Hollow Ware Made of or Plated with Precious Metal	1868

TIFFANY & CO.	1,228,189	Feb. 22, 1983	Decorative Art Objects Made in Whole or in Part of Precious or Semi-Precious Metals – Namely, Figurines, Boxes, Bowls, Trays, and Flowers, Jewelry, Semi-Precious Stones, and Natural and Natural and Cultured Pearls	1868
TIFFANY	1,228,409	Feb. 22, 1983	Decorative Art Objects Made in Whole or in Part of Precious or Semi-Precious Metals – Namely, Figurines, Boxes, Bowls,	1868

			Trays, and Flowers, Jewelry, Semi-Precious Stones, and Natural and Natural and Cultured Pearls	
T & CO.	1,669,365	Dec. 24, 1991	All Types of Jewelry Made of, or in Part of, Precious Metals and/or with Precious or Semi-Precious Stones	1979
	1,804,353	Nov. 16, 1993	Jewelry – Namely, Earrings, Necklaces, Bracelets, Pendants, Cufflinks and Rings	1974
	1,785,204	Aug. 3, 1993	Jewelry – Namely, Pins, Pierced Earrings, Ear Clips, Bracelets,	1984

Necklaces,
Rings and
Brooches

13. All of the above marks and registrations are valid and subsisting and Registration Nos. 1,228,189, 1,228,409, 1,804,353 and 1,785,204 have become incontestable pursuant to Section 15 of the Lanham Act, 15 U.S.C.§ 1065.

eBay's Activities

14. Upon information and belief, trademark infringement and counterfeiting in the United States exceed $200 billion annually. Currently, the sale of counterfeit goods over the Internet is believed to amount to more than $30 billion worldwide and to represent roughly 10 percent of the total counterfeit market.

15. eBay operates a well-known Internet website at <ebay.com>. Through that website, eBay provides a service which enables member sellers to offer items for sale to member buyers in what eBay characterizes as either auction-style or fixed-price formats.

16. eBay promotes itself as the world's largest online marketplace for the sale of goods and services among its registered users.

17. In fact, substantial amounts of counterfeit Tiffany merchandise – i.e., jewelry sold under the TIFFANY and/or TIFFANY & CO. name, and/or bearing one or more of Tiffany's trademarks, that was not manufactured, authorized, sponsored, or approved by Tiffany, or otherwise affiliated or con-

nected with Tiffany – have been and are being sold through eBay's website.

18. In April 2003, the Federal Bureau of Investigation arrested several members of a counterfeiting ring in New York City that was selling counterfeit Tiffany merchandise through the eBay website. Articles describing those arrests are attached hereto as Exhibit 1.

19. Earlier, in December 2002, Tiffany obtained a civil seizure and preliminary injunction against a company that sold considerable amounts of counterfeit Tiffany jewelry through eBay. *See Tiffany (NJ) Inc. et al. v. Katz Imports, Inc. et al.*, Civ. Act. 02-8450 (E.D. Pa. Dec. 11, 2002).

20. The eBay website is currently, and has been, infested with many thousands of counterfeit Tiffany items, many of poor quality, which, upon information and belief, has directly led to the defrauding of thousands of consumers who mistakenly believed they were purchasing genuine Tiffany jewelry.

21. eBay, in common with a majority of the public, is well aware of the TIFFANY and TIFFANY & CO. trademarks and of the vast goodwill represented and symbolized thereby. Notwithstanding said awareness, eBay has facilitated the promotion and sale in the United States of counterfeit Tiffany jewelry by providing a forum for, and actually promoting, such sales.

22. The overwhelming majority of jewelry items sold and offered for sale through the eBay website that use the TIFFANY trademark as part of their auction titles are, in fact, counterfeit Tiffany merchandise.

23. Tens of thousands of counterfeit Tiffany items are sold through the eBay website each year, and eBay charges hundreds of thousands of dollars in fees in connection with the sale of this counterfeit merchandise on an annual basis.

eBay's Greeting Pages and Sponsored Links

24. eBay has compounded its tacit facilitation of counterfeiting with its own direct misrepresentations concerning the goods sold through the eBay website.

25. Attached hereto as Exhibit 2 are printouts of several "greeting pages" that Internet users first encounter when visiting the eBay website. eBay has used these greeting pages, and others like them, to promote the sale of goods offered on its website. For example, certain of the greeting pages suggested items to be bought as "Mother's Day Gifts" and then listed a variety of brand-name goods.

26. On these greeting pages are listings entitled "Tiffany & Co." or "Tiffany" – plaintiffs' famous, registered trademarks. When a visitor to eBay's website clicks on the "Tiffany & Co." or "Tiffany" listings, he or she is directed to a list of auctions for jewelry items that use the TIFFANY trademark in their auction titles. A very high percentage of these auctions for jewelry that use the TIFFANY trademark in their titles are actually auctions for counterfeit Tiffany merchandise.

27. Moreover, eBay has arranged with Yahoo! and Google so that an Internet user who types in "Tiffany" into one of those companies' Internet search engines is greeted with a "sponsored link" for eBay.

28. These sponsored links are reflected in the printouts from Yahoo!'s and Google's Internet websites that are attached hereto as Exhibit 3. For example, the sponsored link on the Yahoo! site states "Tiffany on eBay – Find tiffany items at low prices." The sponsored link on the Google site states "Tiffany for Sale – New & Used Tiffany for sale."

29. Clicking on eBay's sponsored link in connection with either of the Yahoo! or Google search engines directs the user to a list of auctions resulting from an eBay search for all auctions with "Tiffany" in their titles, including many counterfeit items.

30. eBay's grouping of counterfeit Tiffany items under the TIFFANY and TIFFANY & CO. trademarks, through either the greeting pages or sponsored links described above, actively encourages the sale of counterfeit merchandise by suggesting that the items in question are genuine Tiffany goods.

Plaintiffs' Protests and eBay's Refusal to Cease Selling Counterfeit Jewelry

31. On or about May 14, 2003, counsel for Tiffany sent eBay a letter, *inter alia*, advising eBay of the immense problem of counterfeit Tiffany jewelry on eBay and requesting that eBay: (i) remove listings for counterfeit merchandise; (ii) take appropriate and continuing measures to eliminate the sale of counterfeit Tiffany merchandise through eBay's website; and (iii) cease using any "Tiffany" identifier to label counterfeit goods.

32. Despite this request, eBay continues to provide a forum for thousands of counterfeit Tiffany items and eBay continues to encourage the sale of this counterfeit merchandise through both sponsored

links and greeting-page links such as those described above.

33. Tiffany has advised eBay that because of the limited channels of trade for genuine Tiffany merchandise and, based on Tiffany's experience in monitoring eBay's website, a seller who is offering for sale more than a small quantity – five or less – of jewelry items that he or she claims are from Tiffany is almost certainly selling counterfeit Tiffany goods.

34. eBay asserts that it currently reviews all listings for goods that are offered through its website. Accordingly, eBay is able automatically to screen out and remove from its database all listings by sellers of five or more pieces of Tiffany jewelry. Nonetheless, eBay has failed and refused to take such measures to stop the sale of counterfeit Tiffany merchandise.

35. Instead, eBay, for its own convenience and profit, requires companies like Tiffany to police eBay's auctions to bring counterfeits to eBay's attention. This policy is less effective and more expensive than automatic screening by eBay itself would be.

36. The sale of counterfeit goods using the TIFFANY trademark facilitated and encouraged by eBay is intended to cause and has caused confusion, mistake or deception of the trade and public and is intended to cause and has caused them to believe that those counterfeit products are the same as Tiffany's products or are authorized, sponsored or approved by Tiffany or are otherwise affiliated or connected with Tiffany and/or Tiffany's products.

37. During 2003 and 2004, two of Tiffany's employees devoted substantial portions of their time to policing eBay auction sites for counterfeit Tiffany

merchandise. As a result of their efforts, during a five-month period, eBay removed over 19,000 auctions that were selling counterfeit Tiffany merchandise.

38. In 2004, Tiffany implemented a program to purchase, at random through eBay auctions, certain silver jewelry items that used the TIFFANY trademark as part of their auction titles or descriptions. Of 186 pieces of "Tiffany" jewelry purchased during this program, 73% were not genuine merchandise, even though they were described as genuine by the sellers in the auction listings and/or bore Tiffany's famous trademarks. Only 5% of the jewelry items purchased pursuant to this program that were advertised and sold as being genuine TIFFANY jewelry were, in fact, genuine.

39. eBay, and the counterfeiters that employ the services it offers through its website have intentionally used the TIFFANY and TIFFANY & CO. trademarks knowing that, or willfully blind to the fact that, those marks are identical to Tiffany's registered trademarks.

40. The counterfeiters who employ eBay's services through its website have offered for sale and sold their said jewelry with the intent to induce the public to purchase said products as and for Tiffany's said jewelry or to believe that said jewelry is the same as Tiffany's jewelry or has been made, sponsored or approved by the producers of Tiffany's jewelry.

41. eBay knows about the continuing sale of counterfeit Tiffany merchandise through its website and/or it has been willfully blind to the sale of this unlawful merchandise using the services it offers.

42. The activities of eBay and the counterfeiters that employ its services have resulted and are likely to result in the substitution and passing off of counterfeit jewelry products to purchasers seeking to purchase Tiffany's jewelry products.

43. eBay's actions and failure to act have caused and will continue to cause immediate and irreparable harm to Tiffany and to the substantia l goodwill embodied in Tiffany's registered trademarks and said harm will continue unless this Court enjoins eBay's unlawful activities complained of herein.

FIRST CLAIM FOR RELIEF

Direct and Contributory Trademark Infringement Under Sections 32(1) and 34(d) of the Lanham Act

44. Plaintiffs repeat and reallege each and every allegation set forth in the preceding paragraphs as if fully set forth herein.

45. Defendant's conduct constitutes direct and contributory trademark infringement, involving counterfeit marks, in violation of Section 32(1) of the Lanham Act, 15 U.S.C. § 1114(1), and Section 34(d) of the Lanham Act, 15 U.S.C. § 1116(d).

SECOND CLAIM FOR RELIEF

Infringement and False Advertising Under Section 43(a)(1)(A) and (B) of the Lanham Act

46. Plaintiffs repeat and reallege each and every allegation set forth in the preceding paragraphs as if fully set forth herein.

47. Defendant's conduct constitutes infringement and the use of false descriptions and representations in violation of Section 43(a)(1)(A) and

(B) of the Lanham Act, 15 U.S.C. § 1125(a)(1)(A) and (B).

THIRD CLAIM FOR RELIEF

Direct and Contributory Common Law Trademark Infringement

48. Plaintiffs repeat and reallege each and every allegation set forth in the preceding paragraphs as if fully set forth herein.

49. Defendant's conduct constitutes direct and contributory trademark infringement under common law.

FOURTH CLAIM FOR RELIEF

Direct and Contributory Common Law Unfair Competition

50. Plaintiffs repeat and reallege each and every allegation set forth in the preceding paragraphs as if fully set forth herein.

51. Defendant's conduct constitutes direct and contributory unfair competition under common law by assisting in passing off, misappropriation and unprivileged imitation.

FIFTH CLAIM FOR RELIEF

Violation of the Federal Antidilution Statute

52. Plaintiffs repeat and reallege each and every allegation set forth in the preceding paragraphs as if fully set forth herein.

53. Defendant's conduct constitutes trademark dilution in violation of Section 43(c) of the Lanham Act, 15 U.S.C. § 1125(c).

SIXTH CLAIM FOR RELIEF

Violation of the New York Antidilution Statute

54. Plaintiffs repeat and reallege each and every allegation set forth in the preceding paragraphs as if fully set forth herein.

55. Defendant's conduct will improperly dilute the va lue of plaintiffs' trademark in violation of New York General Business Law § 360-l.

WHEREFORE, plaintiffs pray for a judgment:

1. Preliminarily and then permanently enjoining and restraining defendant, its officers, agents, servants, employees, attorneys, successors or assigns, and all persons or entities acting in concert or participation with it, them or any of them from assisting in or contributing to the offering for sale, sale, advertising and/or promotion in the United States of (a) jewelry bearing the TIFFANY, TIFFANY & CO., or T & CO. trademarks, except for genuine merchandise that in its entirety has been made, sponsored or approved by plaintiffs; (b) any other jewelry or other merchandise that bears trademarks that are confusingly similar to or dilutive of plaintiffs' registered trademarks; (c) any other false statements or designation of origin or false description or representation or any other thing calculated or likely to cause confusion or mistake in the mind of the trade or public or to deceive the trade or public into believing that counterfeit products are in any way associated or affiliated with or related to plaintiffs or plaintiffs' genuine jewelry.

2. Directing defendant to account to plaintiffs for its profits arising from the conduct complained of herein, pursuant to 15 U.S.C. § 1117, and entering judgment for three times such profits aris-

ing from the conduct complained of herein, pursuant to 15 U.S.C. § 1117(b) and 15 U.S.C. § 1116(d), or, alternatively, awarding plaintiffs statutory damages of $1,000,000 per counterfeit mark per type of jewelry sold, pursuant to 15 U.S.C. § 1117(c) and 15 U.S.C. § 1116(d), in view of defendant's willful conduct.

3. Awarding plaintiffs punitive damages to which they are entitled under applicable federal and state laws.

4. Awarding plaintiffs their reasonable attorneys' fees, taxable costs and disbursements of this action, pursuant to 15 U.S.C. § 1117, in view of defendant's willful conduct.

5. Awarding plaintiffs such other and further relief as the Court deems just and proper.

Dated: July 14, 2004
New York, New York

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